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ABSTRACT

The Illinois Task Force on School Finance was created in 1990 to devise a plan to ensure adequate state funding for all school districts at greater levels. The task force's plan for 1993 provides for funding of an adequate education and creates a more equitable distribution of educational revenues. The first part of this report presents an overview of the equity and adequacy problems confronting elementary and secondary education. The second part summarizes the 30 task-force meetings that led to the formation of the recommendations. The third part provides task-force recommendations for change in the method of financing elementary and secondary education. The fourth part contains comments of task-force members who did not totally agree with specific portions of the recommendations. Appendices A-J include the task force's purpose and scope, a proposed methodology for adequate state funding, alternatives for school-finance reform, a progress report for school-finance reform in elementary and secondary education, core issues of school-finance reform in elementary and secondary education, the task-force working paper, a summary of public hearings, 1989 McMahon Index and collapsed index for Illinois counties, school district tax-rate limitations, and a general state-aid simulation table. (JPT)

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Report
of the
Illinois
Task Force on School Finance

House Joint Resolution #18
86th Illinois General Assembly

and

Senate Joint Resolution #1
87th Illinois General Assembly

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EA 024 906

TASK FORCE ON SCHOOL FINANCE

Senator Arthur Berman
Co-Chairman

Mr. Gene Hoffman
Co-Chairman

Senator John Maitland, Jr.
Vice Chairman

Rep. Helen Satterthwaite
Secretary

MEMORANDUM

DATE: January, 1993

TO: Members of the Illinois General Assembly and Other Interested Parties

FROM: Senator Arthur Berman, Co-Chairman
Mr. Gene Hoffman, Co-Chairman

SUBJECT: Report of the Illinois Task Force on School Finance

This document is the report of the Illinois Task Force on School Finance. The Task Force was created in 1990 (House Joint Resolution #18) and continued in 1991 by Senate Joint Resolution #1. The Task Force held 30 meetings in more than two years with the final meeting being held on December 1, 1992.

Research conducted by the Task Force shows that over 79% of Illinois students attend schools without revenues sufficient to provide an "adequate" education. Revenues per pupil range from in excess of $11,400 to less than $2,400.

The recommendations addressed in this report represent significant changes in the way elementary and secondary schools in Illinois are funded. These recommendations include:

- a system of distributing state funds to schools based on an "adequate" level of support that takes into account regional cost differences;
- property tax relief in school districts with tax rates above a specified level, with the state providing a dollar for dollar replacement of the "lost" local funding;
- a requirement that school districts with property tax rates below a specified level raise those rates in order to qualify for full state funding; and
- a phase-in of the plan that will protect school districts from receiving less state aid than they currently receive.

Additional copies of this report may be obtained by calling the Illinois State Board of Education at 217/782-5596.

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Task Force on School Finance

Senator Arthur Berman, *Co-Chairman* (D-Chicago)
Mr. Gene Hoffman, *Co-Chairman*
Senator John Maitland Jr., *Vice Chairman* (R-Bloomington)
Rep. Helen Satterthwaite, *Secretary* (D-Champaign)

Mr. Don Ames
CNA Insurance Companies

Mr. Bob Beckwith
Illinois State Chamber of Commerce

Mr. Ken Bruce
Illinois Education Association

Senator Earlean Collins (D-Chicago)

Rep. Mary Lou Cowlishaw (R-Naperville)

Senator Aldo DeAngelis (R-Chicago Heights)

Senator Miguel del Valle (D-Chicago)

Senator Vince Demuzio (D-Carlinville)

Rep. Bill Edley (D-Macomb)

Senator Forest D. Etheredge (R-Aurora)

Mr. William Farley
Oak Park-River Forest Dist. 200

Rep. Manny Hoffman (R-Flossmoor)

Senator Joyce Holmberg (D-Rockford)

Senator Emil Jones, Jr. (D-Chicago)

Mr. Norm Jones
GROWMARK, Inc.

Senator Doris Karpiel (R-Roselle)

Mr. Ted Kimbrough
Chicago School District 299

Mr. Jim Lago
Illinois Catholic Conference

Mr. Robert Leininger
State Board of Education

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Illinois Manufacturers' Association

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Ms. Jacqueline Vaughn
Illinois Federation of Teachers

Mr. Richard Walsh
AFL/CIO

Senator Frank Watson (R-Carlyle)

Rep. Michael L. Weaver (R-Mattoon)

Dr. Larry Weck
Addison School District 4

Rep. Wyvetter Younge (D-East St. Louis)

Introduction

The schools and school children of Illinois have long been burdened by an inadequate and inequitable system of school finance. This inadequacy and inequity lessen the educational opportunities available to our children and diminish Illinois' ability to meet the economic challenges of the future.

In 1990 the 86th General Assembly made a significant step toward creating an adequate and equitable educational funding system by creating a Task Force on School Finance through House Joint Resolution #18. The 87th General Assembly continued the work of the Task Force via Senate Joint Resolution #1.

In HJR #18 the General Assembly declared that, "The quality of public education offered in this State depends upon an increase in the level of State funding and the availability of that quality public education depends upon an equitable distribution of resources."

In HJR #18 and SJR #1, the General Assembly directed the Task Force to "devise a new plan that shall ensure adequate State funding for all school districts in Illinois at a greater level than the present system provides."

This Report of the Task Force on School Finance provides such a plan to the General Assembly and to the people of Illinois. The plan provides for funding of an adequate education for Illinois children and creates a more equitable distribution of educational revenues.

Section 1 of the report, "Problems Confronting Elementary and Secondary Education," gives an overview of the equity and adequacy problems currently faced by Illinois public school districts.

Section 2, "The Work of the Task Force," summarizes the thirty meetings held by the Task Force which led to the formation of the recommendations.

Section 3, "Recommendations," provides the Task Force recommendations for change in the method of financing elementary and secondary education.

Section 4, "Supplemental Comments," contains comments reflecting the opinions of those Task Force members not in total agreement with specified portions of the recommendations.

A list of common educational finance terms follows.

List of Terms

In order to assist the reader, selected terms used in this paper have been defined below.

CPPRR — Corporate Personal Property Replacement Revenue

Revenues generated by a state tax on the net income of corporations, partnerships and other businesses. The tax was enacted in 1979 to replace the local tax on the assessed value of corporate personal property.

First Referenced on Page 4

EAV — Equalized Assessed Valuation

The assessed value of real property multiplied by the State Equalization Factor, or multiplier. This gives the value of the property from which the tax rate is calculated after deducting homestead exemptions, if applicable.

First Referenced on Page 5

GSA — General State Aid

A grant of state funds to a school district, the amount of which is determined by a statutory formula. The amount of the grant is currently based on the property wealth of and number of students attending the school district. This grant is generally unrestricted in its use by the district.

First Referenced on Page 4

OTR — Operating Tax Rate

The Total Tax Rate of a school district for all purposes less the tax rates for bond and interest, rent, vocational education construction, summer school, and capital improvements.

First Referenced on Page 4

TWADA - Total Weighted Average Daily Attendance

Average Daily Attendance adjusted for grade-level weightings and increased by the weighted number of Chapter 1 students assigned to the school district.

First Referenced on Page 4

Section 1

Problems Confronting Elementary and Secondary Education

Inadequacies

Some school children have never seen a computer in their school while others use textbooks published before they were born. Some attend schools with leaky roofs, poor heating systems, inadequate laboratory facilities, or no libraries.

The 1992-93 General State Aid (GSA) foundation level is $2,600. This is the dollar amount "guaranteed" from state and local resources to provide an adequate education for a regular elementary student.

By almost any standard, $2,600 is an inadequate amount to educate a child; however, over 30,000 students reside in school districts where state and local revenues are less than the "guaranteed" $2,600.

Traditionally, operating expenditures have been the data used to discuss funding issues. Expenditures are based on General State Aid, local property taxes, and state and federal categorical revenues. Since some school districts may have expenditures which reflect the result of long- or short-term borrowing, which would tend to disguise their true financial picture, the amount of revenue available to a school district is a better indication of the health of the school district and its ability to provide educational opportunities for its students. Assuming that other items stay constant, only increased revenues can help to improve existing programs, implement new programs, or reduce excessive class size.

Table I displays unrestricted revenue per total weighted average daily attendance (TWADA) by category. Unrestricted revenue is defined as the sum of General State Aid, local property taxes at the operating tax rate (OTR), and corporate personal property replacement revenues (CPPRR). Since state and federal categorical revenues are restricted in their use, they are excluded from this definition. Data in Table I are from the 1992-93 General State Aid claims. Data in the Preliminary Report of the Illinois Task Force on School Finance were taken from the 1991-92 General State Aid claims.

TABLE I

Number of Districts and Students
by Category of Unrestricted Revenue per TWADA
(Based on 1990 EAV and 1992-93 GSA)

Category	Number of Districts	Percent	Number of Students	Percent
Above $10,000	1	.11%	88.3	.00%
$9,000 - 9,999	4	.43%	7,384.4	.37%
$8,000 - 8,999	8	.86%	14,355.9	.73%
$7,000 - 7,999	19	2.04%	37,968.5	1.93%
$6,000 - 6,999	31	3.33%	71,179.2	.61%
$5,000 - 5,999	40	4.29%	120,029.5	6.09%
$4,000 - 4,999	73	7.83%	157,762.4	8.01%
$3,000 - 3,999	295	31.65%	968,996.5	49.17%
$2,600 - 2,999	429	46.03%	562,217.5	28.53%
$2,000 - 2,600	32	3.43%	30,724.4	1.56%
TOTALS	**932**	**100.00%**	**1,970,706.5**	**100.00%**

The problem of inadequate funding is apparent when over 30% of the students live in districts with revenues below $3,000 per student.

The primary reason for low revenues per pupil in some districts is simply the insufficiency of state funding. In 1992-93 the General State Aid appropriation is $2.1 billion. In 1990, local property taxes for operating purposes amounted to $4.7 billion. Corporate personal property replacement revenue totaled $303 million. General State Aid accounts for 30% of this $7.1 billion total while local property taxes account for 66%. The ratio of local property taxes to General State Aid is more than two to one.

Through time, the General State Aid formula has been inadequately funded. In 1972-73, the General State Aid foundation level under the newly adopted resource equalizer formula was set at $1,260. This was to be fully achieved in four years. Had the foundation level kept pace with the cost of living since that time, the foundation level in 1992-93 would have been $3,114 as compared to the actual 1992-93 foundation level of $2,600. A foundation level of $3,114 would have required a 1992-93 General State Aid appropriation of $2.976 billion, approximately $850 million above the current appropriation.

In order to provide for the needs of the children of the state, education must be funded in a clear and consistent manner without the extreme fluctuations that have been experienced in the recent past. A consistent funding pattern would make it possible to more effectively plan, especially for those districts heavily dependent on state funding.

Inequities

In addition to revealing that almost 600,000 children reside in districts with revenues per student under $3,000, Table I shows that over 130,000 children live in districts with per pupil revenues above $6,000.

For 1992-93 the highest unrestricted revenue per TWADA is $11,437. The lowest is $2,394. This ratio is 4.8 to 1. It is clear that great disparity exists. It is equally clear that a disproportionate number of districts simply do not have adequate revenues. Many would argue that even if the range were $3,000 to $6,000, a two to one ratio is still too much disparity, and that revenue levels below $3,000 are simply not acceptable.

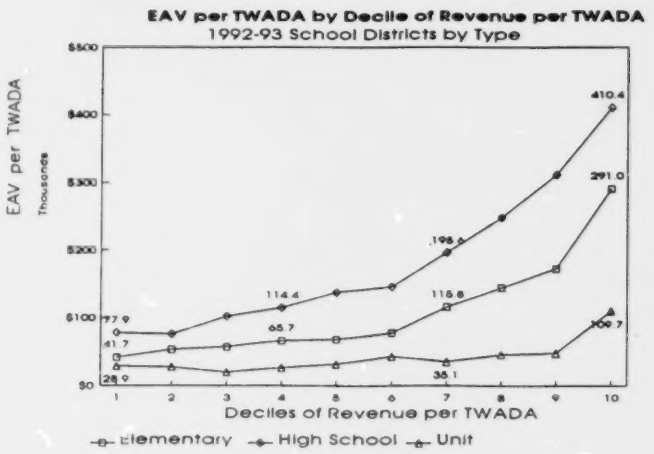
The fact that 130,000 students reside in districts with high levels of revenue is, in itself, not a problem. Rather it is an indicator that the state has created and perpetuated a system of educational finance which distributes the total amount of educational revenue inequitably. A fortunate group of students has access to excellent programs and opportunities while the vast majority of students do not.

In recent years, increased attention has been focused on reforming the General State Aid formula as a means of addressing revenue disparity in Illinois. Revenues as defined above total approximately $7.1 billion. Approximately $2.1 billion of that total is distributed through the General State Aid formula on an equalized basis. The reason for the revenue disparity is the variation in local revenues. Statewide, the equalized assessed valuation (EAV) of real property is increasing at a rate of almost 7% per year although over one-third of the school districts, mostly downstate, continue to lose part of their tax base. Residents of some districts also choose to exert more local effort than do others.

In order to gain an understanding of the relationships among revenues, wealth and effort, districts were categorized by type into ten equal groups based on unrestricted revenue per pupil. Average revenue, equalized assessed value and tax rates were then computed within each of the ten groups of districts by type.

Chart I shows the relationship between unrestricted revenue per pupil and equalized assessed value per pupil for each type of district.

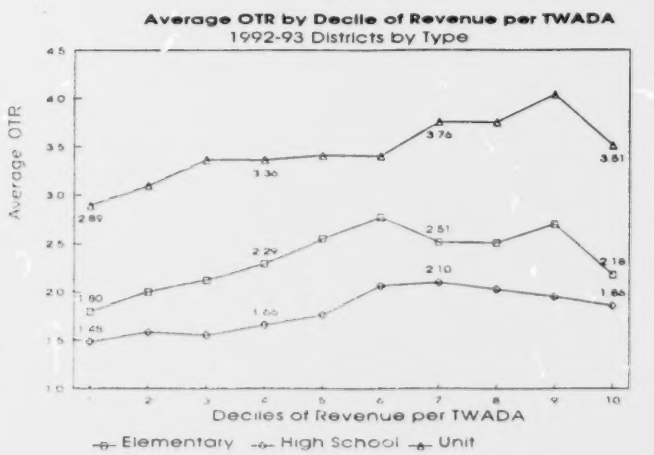
CHART I



This chart shows that the higher the revenue per pupil, the higher the equalized assessed valuation per pupil.

Chart II shows the relationship between unrestricted revenue per pupil and operating tax rate for each type of district.

CHART II



This chart shows that the higher the revenue per pupil, the higher the operating tax rate of the district.

Examination of Charts I and II shows that wealth and effort greatly contribute to variations in revenues. Generally, districts having higher levels of revenue per pupil also have the higher levels of wealth and effort.

Other Problems

In addition to the disparity in revenue per student and inadequacy of state funding for education, the system of funding in Illinois has other problems.

Out of 932 school districts, over one hundred are being "watched" by the State Board of Education as to their financial condition. Twenty-eight districts have been certified as being in financial difficulty.

There is a large variation in tax rates causing considerable taxpayer inequity across the state. Some taxpayers choose to tax themselves at very high rates, thus providing high-quality educational services to children in the district. Others choose not to tax themselves above the level allowed by law without referendum. It can be argued that taxpayers in relatively low-effort districts are not adequately supporting the local educational program.

Further complicating the local property tax picture is the existence of three types of school districts which vary in organizational structure, type of students served, and most importantly, taxing authority and ability to raise local revenue. The equalized assessed value of real property in each of the three district types differs greatly, which unfortunately, is a factor that cannot be controlled by either the state or the school district without a redefinition of what constitutes the local tax base. In 1990, the average tax rates for operating purposes were 2.44%, 1.92%, and 3.75% in elementary, high school, and unit districts, respectively. The statewide average for all districts was 4.04%.

Briefly stated, for equity purposes, unit school districts (serving grades kindergarten through 12) should have the same permissive taxing authority as the sum of the permissive taxing authorities of elementary districts and high school districts. Furthermore, elementary districts should have proportionally more permissive taxing authority than high school districts. Neither equity condition is presently met in Illinois. Elementary districts have exactly the same permissive taxing authority as do high school districts. Although conditions have improved with the passage of recent legislation, unit districts still have less permissive taxing authority than do their combined elementary and high school counterparts.

The General State Aid formula contains several inequities which must be corrected. For example, the formula tax rates bear no relationship to the permissive taxing structure. Also, the method used to convert corporate personal property replacement tax receipts to assessed valuation for formula purposes gives advantages to some districts and penalizes others.

Section 2

The Work of the Task Force

The Task Force on School Finance held a total of thirty meetings. One of the meetings was for organizational purposes under House Joint Resolution #18. Another organizational meeting was held under Senate Joint Resolution #1. Eight were for the purpose of educating Task Force members. Six meetings were used for discussion of alternatives and receiving staff reports requested by Task Force members. Two meetings were used for the review of preliminary computer simulations. Eleven meetings were directed towards discussion and the building of consensus on the various issues. The purpose of the final meeting was to finalize recommendations.

The first organizational meeting (HJR #18) was held on October 10, 1990, at the State of Illinois Center in Chicago. Senator Arthur Berman and Representative Gene Hoffman were elected co-chairs. Senator John Maitland, Jr. was elected Vice-Chairman and Representative Richard Mulcahey was elected Secretary. The Purpose and Scope (Appendix A) document distributed by Senator Maitland was discussed and finalized. It was decided that preliminary Task Force meetings should be primarily educational to insure that all Task Force members were "up to speed" on the issues confronting them.

On November 13, 1990, the Task Force met at the Capitol in Springfield. The topic of the meeting was property taxes. Mr. Robert Brock of the Illinois Economic and Fiscal Commission made a presentation concerning its recent study of the Illinois property tax system. Mr. Ron Hagaman of the Department of Revenue discussed sales ratio studies, the multiplier and the property tax cycle in general. Mr. Thomas Johnson, former Director of the Illinois Department of Revenue and partner at the national accounting firm of Grant Thornton, detailed the differences in the Cook County property tax system and that of downstate with particular emphasis on classification, quadrant multipliers and reassessment cycles.

The third meeting of the Task Force was held on November 28, 1990, in the Capitol in Springfield. The topic of the meeting was General State Aid. Dr. William Hinrichs, Illinois State Board of Education staff, made a presentation explaining the current General State Aid formula and demonstrating the State Board's newly developed microcomputer-based School Finance Simulation System.

Several topics were on the agenda of the December 18, 1990, meeting of the Task Force. The meeting was held at the State of Illinois Center in Chicago. Dr. Walter W. McMahon, Professor of Economics and Education at the University of Illinois, gave a presentation on his published research dealing with regional cost differences. The McMahon Index is a county-level index based on housing, income and change in population. Mr. Gary Ey, Assistant Superintendent, Department of School Finance, Illinois State Board of Education, explained the corporate personal property replacement tax, its basic administration, legislative changes and how local school districts share in the distribution of these revenues. Dr. William Hinrichs discussed disparity of revenues, expenditures, tax rates and assessed valuation per student among Illinois' public school districts. Four district superintendents addressed the Task Force as to how the inequities of funding have affected individual districts programmatically. The four superintendents making presentations were Mr. Harlen Cotter, Seneca Township High School District 160; Dr. Donald Monroe, Winnetka School District 36; Mr. Donald Parker, Riverton Community Unit District 14; and Mr. Donald Stanton, Centralia Township High School District 200.

The next meeting of the Task Force was held January 24, 1991. The meeting was again held at the State of Illinois Center in Chicago. The topic of the meeting was categorical program funding. Dr. Gordon Brown, Chief of Staff, State Board of Education, made the presentation. His presentation included a history of categorical funding and an extensive description of many of the current categorical programs. He explained the differences between "formula" categoricals and other grant programs such as those implemented during the 1985 reform.

Adequacy was the topic of the February 7, 1991, Task Force meeting which was held at the State of Illinois Center in Chicago. Mr. George Evans, retired district superintendent and Special Assistant to the State Superintendent, explained the methodology (Appendix B) proposed to determine an adequate program for elementary, junior high and high school regular education. The costs of these adequate programs were also included. Mr. Evans explained the research and data verification used in assembling the model and indicated the numbers associated with the methodology could be modified and were not as important as was the methodology itself.

The Task Force meeting of February 27, 1991, was held at the State of Illinois Center in Chicago. The topic of the meeting was equity. Dr. William Hinrichs made the presentation on equity. His presentation included the theoretical and conceptual framework of equity including differences between horizontal and vertical equity, equity for the taxpayer versus equity for the student, approaches to equity and various indices used to measure equity. The historical measurement of equity in Illinois was discussed as well as some inequities in the present system of funding. Dr. Hinrichs concluded by pointing out several areas the Task Force would need to address when considering the equity question.

The March 5, 1991, Task Force meeting moved back to the Capitol in Springfield. The topics for the meeting were school finance litigation in other states and the Illinois school finance lawsuit. Ms.

Patricia Brannan, partner with the Washington D.C. law firm of Hogan and Hartson, made the presentation on school finance litigation in other states. Her presentation covered a variety of pending national education litigation, which could impact on state support for education. Her presentation also included in-depth analysis of the school finance litigation in Kentucky, New Jersey, Texas, Pennsylvania and Ohio. Mr. James Carroll, First Assistant Attorney General, then spoke on the current Illinois lawsuit. While he did not discuss litigation strategies, he did indicate several possible routes the litigation could follow.

The topic of the March 12, 1991, meeting, held at the Capitol in Springfield, was the State Board of Education Regulatory Study. Mr. Don Ames, Task Force member and member of the State Board Regulatory Process Committee, and Ms. Mary Jayne Broncato, Associate Superintendent, State Board of Education, made the presentation. Mr. Ames began by explaining the current State Board of Education regulatory process, the formulation of guiding principles and the work of the Regulatory Process Committee. Ms. Broncato then explained the proposed regulatory process, which will retain its compliance component but also include performance and improvement standards and a focus on student outcomes. Once implemented, the new system will include both rewards for districts and possible intervention by the state. The recommendation was to be phased-in with FY 92 being a year for planning and a "pilot" program. Senator Berman then introduced Governor Jim Edgar who expressed his concern about the widening funding gap among Illinois school districts. He reiterated that education was his number one priority and that he supported making the temporary income tax permanent while limiting the growth in property taxes. He closed by emphasizing that the work of the Task Force was important and offered the assistance of his staff.

The March 27, 1991, meeting returned to the State of Illinois Center in Chicago. The agenda called for a series of staff reports on various topics requested by Task Force members. Mr. George Evans gave an update on the adequacy methodology. His update presented weightings for elementary special education and at-risk education. Mr. Evans explained the research and data verification used to produce the weighting factors. Dr. William Hinrichs presented data on grade-level weightings of various states. He indicated that the adequacy model provided implicit weightings. Mr. Gary Ey made a presentation on poverty weighting considerations. The current system, along with pros and cons of the Chapter 1 and free lunch measures, was discussed. The possibility of using AFDC and/or food stamp data was being explored. Mr. John Dee, Manager, School Organization and Facilities, State Board of Education, presented data pertaining to school facilities in Illinois. His presentation included data pertaining to buildings not in compliance with Health and Life Safety codes, the general nature of facility problems and the financial needs to correct those problems. Mr. Dee also made a presentation concerning school district reorganization. He informed Task Force members of reorganization options currently available and incentives available to districts choosing to consolidate or otherwise reorganize.

The topics covered at the April 11, 1991, meeting, held at the Capitol in Springfield were property tax relief, revenue sources and regional cost differences. Mr. Doug Whitley, Director of the Department of Revenue, made the presentation on both property tax relief and revenue sources. In explaining Governor Edgar's tax limitation proposal, he noted that the property tax is the single largest tax source in Illinois and is growing at a rate of $500 million per year. He said that the ultimate goal is to recodify the current Revenue Act, review the assessment system and its structure and also review local government finance and financial structure. Mr. George Evans then gave an update on regional cost differences. He updated the McMahon index and gave explanations of how Florida and Texas derive their respective cost indices.

The Task Force had received copies of submissions from interest groups prior to the meeting. During the meeting, Task Force members had an opportunity to question representatives from each group as to their position on various issues. The interest groups were:

Illinois Congress of Parents and Teachers (PTA)
Legislative Education Network of DuPage (LEND)
EdEquity Coalition (Chicago Urban League, Chicago Panel on Public School Policy and Finance, League of Women Voters of Chicago)
Illinois Administrators of Special Education (IASE)
South Cook Organization for Public Education (SCOPE)
Education-Research Development (ED-RED)
Illinois State Chamber of Commerce
League of Women Voters of Illinois
Education Policy Assembly
Illinois Association of School Boards (IASB)
Illinois Association of School Business Officials (IASBO)
Illinois Farm Bureau
Illinois Education Association (IEA)
Large Unit District Association (LUDA)
Coalition for Educational Rights
FAIRCOM

Task Force members asked that staff summarize various alternatives as a means to facilitate discussion and help focus toward final recommendations. A paper titled Alternatives for School Finance Reform in Illinois (Appendix C) was written and distributed to Task Force members prior to the April 15 meeting.

The April 15, May 2, and May 9, 1991, meetings were held at the Capitol in Springfield. These meetings were devoted to discussion of alternatives.

Prior to the May 21, 1991, meeting, staff were asked to summarize the work of the Task Force to date. Two papers were prepared and distributed. The first paper, Progress Report for School Finance Reform in Illinois (Appendix D), summarized what had been decided in eleven general areas and noted that in seven of the eleven areas either decisions had been made or the decisions that would be made were peripheral to and would

not directly influence decisions and recommendations in the other four areas. The four areas of focus for the Task Force were discussed in the second paper, Core Issues for School Finance Reform in Illinois (Appendix E).

The May 21, 1991, meeting of the Task Force was held at the Capitol in Springfield. Dr. Alan Hickrod and staff from the Geography Department at Illinois State University made a presentation to the Task Force about the newly developed relational data base and its application to mapping of school district boundaries. Examples of the mapping techniques were presented and a computer demonstration was available. Staff reports were then given. Mr. George Evans presented the State Board of Education's final draft of the adequacy methodology. Dr. William Hinrichs made a presentation updating the regional cost indices and presenting new indices based on adjusted gross income. Dr. Hinrichs presented alternative permissive taxing structures and data showing the effects of minimum tax rates, regional tax bases, and splitting the tax base. Dr. Hinrichs presented data showing the effects of distributing the corporate personal property replacement revenues (CPPRR) on a regional basis and also through the General State Aid formula.

Staff concluded reports at the June 5, 1991, meeting, again held at the Capitol in Springfield. Mr. Gary Ey reported on possible poverty measures and noted that initial results of a pilot study to determine the feasibility of using AFDC/Food Stamp data were forthcoming. Dr. William Hinrichs reviewed the current method used for the inclusion of low-income students in the General State Aid formula. He also presented an alternative which was less sensitive to the measure used for poverty impaction. Dr. Hinrichs briefly reviewed two possible equalization techniques which could be used to equalize selected categorical programs. Mr. Ey concluded staff reports by presenting data relating to a circuit breaker for property tax relief and alternative language for proposed constitutional amendments to assure adequate revenues for education. Dr. Hinrichs demonstrated the School Finance Simulation System on microcomputer and noted that most of the alternatives discussed in the Core Issues paper could be quickly simulated. Task Force members were asked to submit simulation requests.

The June 24, 1991, meeting of the Task Force was held at the Capitol in Springfield. Simulations requested by Task Force members were presented.

The second organizational meeting (SJR #1) was held on September 11, 1991, at the State of Illinois Center in Chicago. Senator Arthur Berman and Mr. Gene Hoffman were re-elected co-chairs. Senator John Maitland, Jr. was re-elected Vice-Chairman and Representative Helen Satterthwaite was elected Secretary. The Executive Committee of the Task Force was to be comprised of the four officers and Superintendent Leininger. Two review sessions for new Task Force members were scheduled.

The October 3, 1991, meeting was held at the State of Illinois Center in Chicago. The discussion centered on topics previously discussed by the Task Force. The bases for the discussion were three documents, Alternatives for School Finance Reform in Illinois (Appendix C), Progress Report for School Finance Reform in Illinois (Appendix D), and Core Issues for School Finance Reform in Illinois (Appendix E), which had been distributed and discussed prior to the second organization meeting. Staff were requested to prepare a document which would present, for discussion purposes, a scenario for reform upon which Task Force members could react.

The October 22, 1991, meeting was held in Springfield at the offices of the Illinois State Board of Education. The scenario for reform, titled Working Paper of the Task Force on School Finance (an abbreviated version of the Working Paper without its appendices appears as Appendix F), was discussed. Mr. Gary Ey presented an update on regional cost differences.

Discussion of the Working Paper continued at the November 6, 1991, meeting which was again held in Springfield at the offices of the Illinois State Board of Education. Discussion primarily centered around the property tax base of local school districts.

The November 14, 1991, meeting was held in Chicago at the State of Illinois Center. Again discussion centered on the Working Paper. Dr. William Hinrichs was available to computer simulate the effects of the system outlined in the Working Paper. Several variations were suggested by Task Force members. The variations were simulated and their effects discussed.

The November 26, 1991, meeting was held in Chicago at the State of Illinois Center. Discussion again focused on the Working Paper, with special emphasis on various tax base options.

In an attempt to focus the work of the Task Force to date, chart the future direction of the Task Force and more clearly delineate to staff the ideas previously discussed, the Executive Committee met several times during the months of December 1991 and January and February 1992. As a result of these meetings, areas were more clearly focused and additional options surfaced.

The next meeting of the Task Force was held at the State of Illinois Center in Chicago on February 26, 1992. Senator Berman reported on the work of the Executive Committee and outlined the future agenda. It was suggested by Senator Berman and Mr. Gene Hoffman that after the Task Force work was concluded, preliminary recommendations would be presented at regional hearings. Final recommendations would then be prepared. Decisions regarding adequacy, regional cost index, the permissive tax structure, corporate personal property replacement revenues, Chapter 1 weighting and categorical funding were made.

The next two meetings of the Task Force were held in the office of the Illinois State Board of Education on March 31 and April 6, 1992. Decisions regarding the property tax base, property tax relief, a required minimum tax rate, the application of a regional cost index, the inclusion of flat grants in the state aid formula and minimum tax effort for formula access were made.

The next two meetings of the Task Force were held in the offices of the Illinois State Board of Education on May 12, 1992, and May 26, 1992. Task Force members were furnished with a document summarizing its work and decisions to date. Decisions regarding the Chapter 1 cap, efficiency issues concerning short-term debt instruments, consolidation/reorganization incentives, and district consolidation votes were made. Co-Chair Berman discussed the work of the Task Force in light of the proposed constitutional amendment (SJRCA 130).

The next meeting of the Task Force was held in the offices of the Illinois State Board of Education on June 10, 1992. It was noted that the school finance lawsuit had been dismissed at the circuit court level. Possible implications were discussed. The Task Force supported a motion to introduce legislation which would define an adequate education. It was then decided to issue a preliminary report and to schedule a series of hearings to receive public input on unresolved issues and issues upon which there was not a clear consensus.

The Preliminary Report of the Illinois Task Force on School Finance was issued in August, 1992. The report contained the preliminary recommendations of the Task Force. In addition, public input was solicited on those recommendations which were reached without overwhelming consensus and those issues for which no recommendation had been made.

Five public hearings were scheduled to receive input on the preliminary report. These hearings were scheduled in September and October and were held in Rockford, Wheaton, Chicago, Springfield and Mt. Vernon. A total of 62 people testified. A summary of the written testimony received at these hearings appears as Appendix G.

The Executive Committee of the Task Force met several times during November, 1992. These meetings were used to evaluate public input received at the hearings and provide recommendations for presentation at the December Task Force meeting.

The final meeting of the Task Force was held in the offices of the Illinois State Board of Education on December 1, 1992. Co-Chair Gene Hoffman reported on the input received at the public hearings. He also presented recommendations of the Executive Committee for changes to the Preliminary Report of the Illinois Task Force on School Finance. These included recommendations for General State Aid, adjustment of the adequacy level and McMahon Index, property tax relief, efficiency, phase-in, and hold harmless. After discussion, the Executive Committee recommendations were adopted as an amendment to the Preliminary Report. Three additional amendments were also adopted. Co-Chair Berman encouraged Task Force members who were not in complete agreement with the recommendations to submit supplemental comments. These comments would be included in the final report. The Task Force was then adjourned.

Section 3

Recommendations

Education is the responsibility of the State. The State must financially support an adequate educational program for all students. This support includes not only the adequate teaching but also the safe and appropriate housing of students at all grade levels. The State must take whatever steps are necessary to adequately support the education of its student population.

The following recommendations are presented as a system of school funding, the individual components of which are interrelated. It is imperative that these recommendations not be modified independently of the other components. Any change in one recommendation without corresponding changes in others may adversely affect the outcome when implemented.

Funding of the Proposed System

It is recommended that the school finance system proposed in this report not proceed without adequate funding to implement the entire five-year phase-in.

Adequacy

One of the primary goals of the Task Force is to recommend a system of financing elementary and secondary education at a level sufficient to fund an adequate education program. It is recommended that the methodology developed by the State Board of Education be adopted and the cost figures associated with the regular elementary cost of an adequate education be used as the foundation level in the General State Aid formula. The calculated per pupil support level is $3,898. It is further recommended that the adequacy level be recalculated after five years and periodically thereafter.

Regional Cost Adjustment

The Task Force realizes that the costs of providing services vary greatly in different parts of the state. For this reason, regional cost differences should be recognized. The index recommended is a modified version of the county-level index developed at the University of Illinois by Professor Walter McMahon.

The index should be modified by collapsing the range to a low of 90 and a high of 110. The formulation for the collapsed index is:

$$\text{Collapsed Index} = \frac{\text{McMahon Index} - 70.42}{2.1985} + 90$$

This calculation is then rounded to the nearest whole number. The collapsed McMahon index appears as Appendix H. It is further recommended that the McMahon Index be recalculated every five years.

The General State Aid foundation level should be multiplied by the index to adjust for regional cost differences.

Equity

Generally, the recommended approach of the Task Force is to "level up." Leveling up is defined to mean reducing overall variation by increasing the expenditure/revenue per student at the lower end of the distribution.

The Task Force recommends that the variation in per pupil revenues be reduced. This will be accomplished through various means as described in the remainder of this report.

Student equity should be statistically evaluated using unrestricted revenue (GSA + EAV x OTR + CPPRR) per pupil as the object to be measured. This object should be adjusted by the regional cost index defined above.

The McLoone index and ratio of 95th to 5th percentile should be the statistical measures used for evaluation purposes. The McLoone index is defined as the ratio of the total number of dollars for pupils below the median revenue per pupil to the number of dollars required if all pupils below the median were at the median revenue per pupil.

The equity goal for all district types is a McLoone Index of 1.0. A secondary equity goal for all district types is a ratio of 95th to the 5th percentile of 1.5.

Property Tax Base

After careful examination of alternatives available to it, the Task Force makes no recommendation with regard to sharing or restructuring the property tax base for the purposes of levying or collecting property taxes or distributing General State Aid.

Tax Structure

The Task Force recommends the introduction of a permissive taxing authority for general capital outlay. This permissive authority is recommended at .05% for elementary and high school districts and .10% for unit districts.

It is also recommended that the system of permissive taxation be restructured. The following table gives current and recommended permissive structures by type of district.

SCHOOL DISTRICT TAX RATE LIMITATIONS
Current Limits Compared to Recommended Limits
Chicago not Included

	Elementary		High School		Unit	
Purpose	**Curr.**	**Rec.**	**Curr.**	**Rec.**	**Curr.**	**Rec.**
Education	.92	1.55	.92	.92	1.84	2.47
Working Cash	.05	.05	.05	.05	.05	.10
Special Education	.02	.02	.02	.02	.04	.04
Oper./Main.	.25	.40	.25	.25	.50	.65
Fire/Life Safety	.05	.05	.05	.05	.05	.10
Transportation	.12	.12	.12	.12	.20	.24
Capital Outlay	—	.05	—	.05	—	.10
TOTAL	**1.41**	**2.24**	**1.41**	**1.46**	**2.68**	**3.70**

It is intended that any district with current taxing authority (permissive or referendum approved) below the recommended levels be allowed to tax at this new rate by local board resolution without referendum. As an example, if an elementary district currently has a 1.25% education rate (.92% permissive and .33% approved by referendum), the district would be allowed, without referendum, to raise its education rate to 1.55%. Any tax rate above 1.55% would require voter approval. If a district is already at or above the recommended levels, there would be no impact. A comparison of Chicago District #299 tax rates to other districts appears as Appendix I.

The increased permissive taxing authority in elementary and unit districts for education, operations and maintenance purposes and working cash purposes should be phased-in over a five-year period. The increased unit authority for fire/life safety purposes and the new authority for capital outlay for all district types should be implemented immediately. A timetable of the suggested phase-in follows.

SCHOOL DISTRICT TAX RATE LIMITATIONS PHASE-IN
Chicago not Included

	Tax Year					
	Current	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
EDUCATION						
Elementary	.92	1.05	1.17	1.30	1.42	1.55
High School	.92	.92	.92	.92	.92	.92
Unit	1.84	1.97	2.09	2.22	2.34	2.47
WORKING CASH						
Elementary	.05	.05	.05	.05	.05	.05
High School	.05	.05	.05	.05	.05	.05
Unit	.05	.06	.07	.08	.09	.10
SPECIAL EDUCATION						
Elementary	.02	.02	.02	.02	.02	.02
High School	.02	.02	.02	.02	.02	.02
Unit	.04	.04	.04	.04	.04	.04
OPER./MAIN.						
Elementary	.25	.28	.31	.34	.37	.40
High School	.25	.25	.25	.25	.25	.25
Unit	.50	.53	.56	.59	.62	.65
FIRE/LIFE SAFETY						
Elementary	.05	.05	.05	.05	.05	.05
High School	.05	.05	.05	.05	.05	.05
Unit	.05	.10	.10	.10	.10	.10
TRANSPORTATION						
Elementary	.12	.12	.12	.12	.12	.12
High School	.12	.12	.12	.12	.12	.12
Unit	.20	.21	.22	.23	.24	.24
CAPITAL OUTLAY						
Elementary	–	.05	.05	.05	.05	.05
High School	–	.05	.05	.05	.05	.05
Unit	–	.10	.10	.10	.10	.10
TOTAL						
Elementary	1.41	1.62	1.77	1.93	2.08	2.24
High School	1.41	1.46	1.46	1.46	1.46	1.46
Unit	2.68	3.01	3.18	3.36	3.53	3.70

These tax rates cannot be subject to "backdoor" referendum.

Corporate Personal Property Replacement Revenue

The Task Force recommends no change in the method of distribution of corporate personal property replacement revenues to local school districts. The CPPRR should continue to be collected and distributed as is current practice.

Much discussion concerning these revenues was held. It was agreed that a constitutional amendment would have to be pursued to allow a redistribution of these dollars on an equalized basis through the General State Aid formula.

General State Aid Formula

The Task Force has several recommendations with regard to the General State Aid formula.

The adequate cost for regular elementary education (as described in the Adequacy section) should be specified as the foundation level in the General State Aid formula.

As noted above, the collapsed McMahon index should be applied to the foundation level.

The ratio of the junior high cost to the elementary cost from the adequacy methodology should be the grade weighting for grades 7-8. The ratio of the high school cost to the elementary cost should be the grade weighting for grades 9-12. This would yield a grade-level weighting of 1.05 for grades 7-8 and a 1.10 weighting for grades 9-12.

The grade-level weighted average daily attendance (WADA) should continue to be calculated using the greater of the prior year WADA or prior three-year average.

The flat grant should continue and be set at 7% of the regionally cost adjusted foundation level.

If the local contribution per pupil exceeds the adjusted foundation level, then that district will receive only the flat grant amount.

If a school district chooses not to tax itself, for operating purposes, at a rate at least as great as 90% of the sum of the seven permissive levels outlined above, that district will receive only the flat grant amount. These formula "access rates" will be phased-in to correspond with the phase-in of the permissive taxing structure.

The phase-in of the "access rates" is recommended as:

	Year 1	Year 2	Year 3	Year 4	Year 5
Elementary	1.46	1.59	1.74	1.87	2.02
High School	1.31	1.31	1.31	1.31	1.31
Unit	2.71	2.86	3.02	3.18	3.33

There should continue to be a low-income weighting in the General State Aid pupil count. While the Task Force recognizes the lack of timeliness and flexibility in the use of the Chapter 1 count in the formula, it is recommended that the Chapter 1 count continue to be used as the measure of low-income students. It is further recommended that the State Board of Education continue its pilot program to determine the feasibility of using AFDC/Food Stamp data as a substitute for the Chapter 1 count.

The Task Force recognizes that districts with extremely low concentrations of low-income students do not incur the additional costs that districts with higher concentrations of low-income students do. Therefore, funding for the incidence of low-income students should continue to be based on the concentration of students in the district relative to the concentration of students in the state. Based on the adequacy methodology applied to at-risk children, it is recommended that the statewide average weighting for Chapter 1 should be changed from .53 to .47. The cap of .625 should be increased to .75.

A foundation formula should be adopted. The basic formula should be:

If(EAV x RATE + CPPRR)/ TWADA > FLEVEL x CMI or if OTR < T

then GSA = .07 x FLEVEL x CMI x TWADA

Otherwise,

GSA = (FLEVEL x CMI x TWADA) - (EAV x RATE + CPPRR)

where FLEVEL = Foundation Level
CMI = Collapsed McMahon Index
TWADA = Total Weighted Average Daily Attendance
EAV = Real EAV of the District
CPPRR = Corporate Personal Property Replacement Revenue
OTR = Operating Tax Rate
RATE = Formula Tax Rate
T = Formula Acress Rate

The Formula Tax Rate (RATE) should be defined as follows.

FOR ELEMENTARY DISTRICTS

If the district OTR is below 2.02%, then the district receives only the flat grant amount. If the district OTR is between 2.02% and 2.46%, then RATE will be the actual OTR. If the district OTR is above 2.46%, then RATE will be 2.46%.

FOR HIGH SCHOOL DISTRICTS

If the district OTR is below 1.31%, then the district receives only the flat grant amount. If the district OTR is between 1.31% and 1.61%, then RATE will be the actual OTR. If the district OTR is above 1.61%, then RATE will be 1.61%.

FOR UNIT DISTRICTS

If the district OTR is below 3.33%, then the district receives only the flat grant amount. If the district OTR is between 3.33% and 4.07%, then RATE will be the actual OTR. If the district OTR is above 4.07%, then RATE will be 4.07%.

In no case will a district receive less than the flat grant amount.

In order for the General State Aid recommendations to be implemented statewide, it will be necessary to rescind the Property Tax Extension Limitation Act during the phase-in period, for approximately 12 districts with operating tax rates below the recommended formula access rates. This is necessary so that those districts have the authority to establish tax rates necessary for formula access.

Property Tax Relief

The Task Force recommends that property tax relief be provided to taxpayers in school districts with high Education Fund tax rates.

For all school districts except Chicago, it is recommended that the Education Fund tax rate be rolled back to 1.75% for elementary districts, 1.15% for high school districts, and 2.90% for unit districts. Districts with Education Fund rates below these levels will not be affected.

Chicago District #299 has taxing authority for purposes other school districts do not. In particular, Chicago may tax for textbooks, teacher pensions, and its agricultural school. In other districts, property tax revenues for these purposes would normally be raised through the Education Fund. If the rates for these purposes are added to the Education rate for Chicago, the total exceeds 2.90%. In order to compensate for the differences in the tax structure, Chicago's taxing authority for education purposes should be rolled back from 2.11% to 2.05%.

The reduction in property tax revenues for school districts will be calculated in a base year. The state will provide a dollar for dollar replacement of these lost revenues the first year. If the district EAV increases, the state payment will continue but may decrease each year until that time when the district property tax revenue for education purposes exceeds that of the base year. The state payment will then be discontinued. Any successful referenda in the Education Fund would result in the cancellation of any state supplement payments.

Districts will be allowed to increase revenues in the Education Fund at the lesser of 5% per year or the education CPI without reducing the supplemental grant amount.

Categorical Program Funding

The Task Force makes no specific recommendations with regard to categorical funding.

Efficiency

The Task Force has three recommendations with regard to efficiency.

It is recommended that incentives for district consolidation and/or reorganization be increased. In particular, it is recommended that when a consolidation results in the formation of a high school with enrollment of greater than 500 students and elimination of at least one high school with an enrollment of less than 500 students, the state will pay 70% of construction costs of a new high school facility if needed.

It is recommended that if unit district consolidation referenda involve only districts with enrollments less than a certain number (e.g. 1,000), the outcome will be determined by a majority of those voting.

It is recommended that a School District Organization Task Force be formed to study the issue of efficiency with regard to school district organization with a report being issued to the General Assembly no later than January, 1995.

Phase-In

It is recommended that the system outlined in these recommendations be phased-in over a five-year period to correspond to the phase-in of the permissive tax structure and the formula "access rates."

During the five-year phase-in period, the formula tax rate (RATE) used for the calculation of General State Aid will be no lower than the final "access rate" (2.02%, 1.31% and 3.33% for elementary, high school and unit districts respectively). The final access rate will be used as long as the district OTR is at least as great as the access rate corresponding to the year of the phase-in. (e.g. In Year 2, if a unit district OTR is greater than or equal to 2.86%, there would be no state aid penalty. At the end of Year 5, if the unit district OTR is not greater than or equal to 3.33%, the district would receive only the flat grant amount.)

The amount of General State Aid increase will be limited during the phase-in period. If BASE GSA is defined as the amount of General State Aid the district received the year prior to the implementation of this system, the phase-in is recommended as follows.

In Year 1,

GSA = (Calculated Year 1 GSA - BASE GSA) x .20 + BASE GSA

In Year 2,

GSA = (Calculated Year 2 GSA - BASE GSA) x .40 + BASE GSA

In Year 3,

GSA = (Calculated Year 3 GSA - BASE GSA) x .60 + BASE GSA

In Year 4,

GSA = (Calculated Year 4 GSA - BASE GSA) x .80 + BASE GSA

In Year 5,

GSA = Calculated Year 5 GSA

It is recommended that, during the phase-in period, any savings generated by increasing equalized assessed valuation (EAV) will remain available for distribution through the General State Aid formula. This will be accomplished by increasing the foundation level to a level which will necessitate equal dollar amount increases in the appropriation each year of the phase-in.

Hold Harmless

A permanent declining hold harmless on the amount of General State Aid each district receives is recommended. The base year is the year prior to the implementation of this system. The district will be held harmless in an amount equal to the difference between its base year amount and its calculated General State Aid until that time when the calculated General State Aid exceeds the base year amount.

Section 4

Task Force on School Finance
Supplemental Comments

Donald C. Ames
CNA Insurance Company

In addition to the serious substantive concerns with the Task Force report which are set forth below, I believe that the process followed by the Executive Committee in submitting its "Recommendations of the Executive Committee for Changes to the Preliminary Report" to the members was patently unfair and did not allow a reasonable opportunity for a studied reaction to the significant proposed changes. This is because (in my case) the 17-page Executive Committee memo (including attachments) was not received until the end of the day on Tuesday, November 24. Action on the final product was desired by the co-chairman on the following Tuesday morning, December 1. The Thanksgiving holiday weekend intervened--creating a situation where the members could not reasonably obtain studied input from experts on the highly technical Executive Committee recommendations.

This sort of "high speed-no study" approach fails to give time for thoughtful consideration. The tragedy of the way the Task Force report was handled is that its good parts might not be seriously considered because of the objectionable procedures used in its adoption by the Task Force.

Among the more serious substantive problems with the Task Force report are the following:

Property Tax Relief

The most that can be said for this is that it is a "nice try" but obviously not well thought through. Districts must roll back their education fund tax rates to a specified level (e.g., unit district to 2.90%). The state will then provide for a "dollar for dollar" replacement for the first year. The report fails to cope at all with the likely problem of the state refusing to fully fund the lost revenues in any given year. The school district will be stuck with the 2.90% rate - less than it previously obtained by voter-approved referendum. The state could decide in a given year not to fully replace the lost revenues. What is the district to do? It would have been led down the garden path. It would have to have a referendum again to get its rate back up to where the voters had already approved it once before. This, of course, would present another serious problem with this Task Force recommendation. That is that the passage of a referendum would result in a cancellation of any hold harmless payments from the state.

These obvious flaws in the proposal are not minor problems. Further consideration of the late-raised issue by the Task Force might have found a way to solve the problems. But the Executive Committee insisted on hurrying the proposal through. Also, this proposal was not dealt with at the public hearings. One method to deal with the problem might be to allow the school districts to preserve their previously approved rate if the state fails to fully replace the districts' loss. But in the rush to judgment there was not time granted to consider this or any other solutions.

Efficiency

Perhaps the most glaring deficiency in the report is its failure to insist that before pouring more money into the system reforms should be put into effect. The report virtually ignores its charge (item 8 in Appendix A) to deal with the "Efficient Use of Tax Dollars." This is a shocking and disastrous omission. These reforms are not just in the interest of spending money efficiently but, more importantly, to insure that the crisis in quality of our educational system is first corrected and is not allowed to persist and interfere with a good education for our children. Ted Kolderie in his article "Education That Works: The Right Role for Business" in the September-October, 1987, Harvard Business Review makes the following point:

> "Stripped to its essentials, the situation is this: an old institution, long accustomed to stability, now faces growing outside competition, major changes in the nature of its customers, and a deepening internal crisis in the quality of its work force. Its managers' response has essentially been to point to outside changes beyond their control, to resist changing the nature of the operation, and to insist that problems could be resolved if only they could have loyal support and additional resources."

We should not be a party to that sort of thinking by the managers of the system. We should tie strings to more money. We should insist that the children be served, even though the "just give us more money" crowd wants to preserve the status quo in the system.

The report fails dismally to insist on that change-- and that it be put into place before more money is given (no glib promises of "we're working on it and may do it next year!"). A few of those changes are as follows:

(a) What is badly needed is the courage to deal with the fact that Illinois has far too many school districts (each with its own superintendent, board, business manager, etc.), costing the public unnecessary resources and adversely affecting the education delivered to our children. The Task Force needed to deal boldly with that. It is time for reform. It is not enough to say, "let's form a Task Force and have it report back in January, 1995."

(b) There is inadequate discussion in the report of the fact that too many school districts have refused to impose upon themselves a tax rate substantially equal to those districts that really care about education. And yet these "low effort" districts are among those seeking further subsidization by the state and/or other school districts which have exerted high effort. The Task Force attempts to deal with this problem by setting permissive rates. Mysteriously, however, the Task Force weakens this laudable goal by concluding that they can access state aid at only 90% of the permissive level. Subsidy by the state or other districts' taxpayers should be payable only if the "low effort" districts move to 100% of permissive access rates.

The effort deficiency can also be found in the fact that there is inconsistent real estate valuation (to one-third of market) across the state, as evidenced by the testimony to the Task Force by the Director of Revenue on April 11, 1991. These inequities must be corrected before massive amounts of new money are showered onto the system. The draft report, sadly, does not make this point.

(c) With respect to the Chicago school system, its Board and administration need to stop resisting the carrying out of the intent of the school reform legislation of 1988, as amended. The provisions in the union contracts, and to some extent in legislation, need to be changed so money which currently is being used in inefficient ways can be used for student programs. Examples are the continued forced payment of unneeded employees, giving the principal control of his or her building, making it easier to oust ineffective teachers, etc.

(d) The "Expanding the Vision" project (subtitled a "World-Class Education for the 21st Century") co-sponsored by the Illinois State Board of Education and the Illinois Business Roundtable clearly showed that the public views as "especially counterproductive" the current practice of continued contractual service (tenure) and the fact that teachers are paid on the basis of longevity on the job and their formal education, rather than on the quality of their performance with children. These practices need to be corrected. The Task Force, unfortunately, remained silent on these major problems with the system.

Operating Tax Rate (OTR)/Fixed Tax Rate

Although use of the OTR was widely opposed in the hearings and the use of the fixed tax rate supported, the Task Force has decided to ignore that and go to the combination option. The guiding principle should instead be that the more local tax effort there is, the more state aid should be available.

Regional Cost Adjustment

The regional cost adjustment should be just that–and reflect the difference in costs around the state. It should not be used as an "equalization" device. The Task Force has ignored the actual McMahon Index and instead adopts the "collapsed" McMahon Index–which means that the Task Force is not reflecting the true cost differences. DuPage and Lake Counties are the only two counties which are not given at least their true actual costs under the "collapsed" index. Many other counties having cost values below 90 are arbitrarily given the benefit of the 90 level even though their true indices are below 90. An explanation for this is not even provided in the report.

Equity

The report purports to adopt the concept of "leveling up" (i.e., bringing districts up to an adequacy level), but not "leveling down." But this principle of "only leveling up" is compromised by the language in the report about "the equity goal" being a "McLoone Index of 1.0" and a "second equity goal" being a "ratio of the 95th to the 5th percentile of 1.5." These arbitrary formulations are of questionable validity in the context of the report in which the real goal was to bring all up to "adequacy" without either (1) forcing adequacy up above that necessary, to satisfy the 1.5 to 1 ratio to the highest district or (2) forcing the highest districts to level down to meet the 1.5 to 1 ratio. This Task Force "goal" (which controverts the "leveling up" idea) will foolishly restrict the striving for educational excellence by many of those communities which have been the most supportive of their schools.

The report has another recommendation which runs against its alleged only "leveling up" purpose. This is in the recommendation that passage of a referendum for a higher rate would cause the loss of the state hold harmless money.

Life Safety in Chicago

The Task Force report fails to deal with the problem of Chicago's poorly maintained schools not having available the same life safety code provisions (with life safety bonding power) applicable elsewhere in the state. Of course, that would require the Chicago system to tax itself to keep its schools in compliance with life safety requirements. We should show some courage and allow Chicago's students to benefit from this life safety methodology because the current Chicago system has not dealt responsibly with these life safety issues.

Adequacy

While the concept of adequacy is one that appealed to all, the alternatives to the Evans project recommendations were never presented. In addition, there has not been an adequate examination of whether the districts and schools Evans chose as his information base are really the ones after which an adequacy methodology should be modeled. What ideas are being used in other states? What does the professional literature show on these issues? The Task Force was never adequately informed by the staff on these matters.

Robert Beckwith
Illinois State Chamber of Commerce

The Task Force Report deals with a number of fundamental changes which must be made to better finance the public schools of Illinois. But, there are several items which need to be emphasized or included in any legislation to bring about the best possible use of state funds so as to guarantee improvement in the education delivery system.

REGIONAL COST DIFFERENCES: The adjustment should be based upon the McMahon Index rather than collapsing the Index within a range of 90 to 110. The Index was independently established to reflect accurate cost of living information. Changing it to suit another purpose, for which it was not intended, invalidates the Index. If the intention is to truly reflect cost of living differences, then the Index should be used "as is," or another equally valid index used. Updating the McMahon Index in the future is appropriate if it is not collapsed.

ORGANIZATION OF SCHOOL DISTRICTS: The need to organize school districts into more educationally viable and financially sound entities is a critical component for any lasting solution to school finance and education accountability. Immediate efforts must be taken to create the recommended School Organization Task Force. To expedite the work of the Task Force, enabling legislation should call for it to use as its basic resource, the *"Opportunities for Excellence" - Findings, Conclusion, and Recommendations of Illinois School District Organization, Final Report of the Committee on School Organization, Organization and Structure Task Force, Governor's Commission on the Schools - March 1973.* Much of the work conducted by that Task Force is just as valid today as it was in 1973. The Task Force should be directed to also recommend how the Chicago public school system can be further decentralized into more efficient autonomous administrative units in addition to addressing just the districts that are too small.

With the departure of the Chicago School Superintendent at the end of the '92-'93 school year, the time is appropriate to enable the twenty-two districts which make up the Chicago system to have autonomy and responsiveness in directing the education of their children. The existence of locally elected school councils provides the base of parent and community experience necessary to function independently.

Only Chicago and Elmwood Park have school district boundaries which are identical to the municipality in which they find themselves. Only the Chicago schools are under control of municipal government. The historical reasons for this are no longer valid.

INTERMEDIATE TAX BASE: A concept paper is presented as part of this report and includes recommendations for an Intermediate Tax Base.

PROPERTY TAX RELIEF: The recommendation for property tax relief for those districts which enjoy an unusually high level of local property tax support with little support from the state, should be well received by local property owners, both residential and commercial. While it is the intent to replace local funds with state funds on a dollar-for-dollar basis, the recommendations do not make it clear as to what happens should the state be unable, in a given year, to replace the lost local revenue. If a district reduces its tax rate, and then finds that the state cannot replace dollar for dollar, the district will be in serious financial difficulty. There must be a provision to guarantee that the state will have the funds prior to the tax rate reduction. If the state funds are not available, the rate should be reduced only to a level necessary to match the actual funds the state is capable of providing.

FIVE-YEAR PHASE-IN: The recommendation for a five-year phase-in is among the most essential features of moving the state into a more prominent role in school funding. A provision should be made that the phase-in could be extended, if found necessary, by annual resolution of the General Assembly.

EDUCATION AND FISCAL ACCOUNTABILITY: While the Task Force Report calls for the infusion of significant additional tax dollars into the school districts, there is no assurance that these dollars will serve to motivate fiscal efficiency or improve student learning outcomes. The new School Recognition Program does address the need to measure learning improvement, but it does not require a district to assess how well it is using present resources or where waste can be identified and eliminated. The Chicago school system is a classic example in this regard. The continued existence of an estimated 450 or more supernumerary teachers who have no teaching assignments, but are on payroll is but one of many inefficiencies in the Chicago system which must be eliminated before the state invests additional tax dollars. To just direct more money to these types of school systems without requiring significant internal fiscal house cleaning must not be tolerated. Somehow, by legislation or other appropriate means, this must be cleared up. We can not expect the general public, and business in particular, to support additional funding unless ironclad assurances can be given to direct present and future dollars to building the education program rather than encouraging or tolerating unwarranted expenditures.

IMPROVED PRODUCTIVITY: The adequacy methodology around which the Task Force built its most basic recommendation seems appropriate. However, the indicators currently recommended for calculating adequacy should be subject to periodic review and adjustment. New technologies coming into use by the schools can help improve productivity and enable the teacher to direct more time to individual student needs while at the same time serving a larger number of students per class. The matters of class size, length of school day and school year, more time for teacher preparation, better use of the school building and other efficiencies may well dictate the need for these adjustments.

Another Alternative for School Finance Reform in Illinois

It is recognized that a major problem facing school finance is centered around the issue of disparity. Some disparity is to be expected just through the natural economic differences in costs of living around Illinois. That is, one would not expect the cost of living, or the cost of providing an education to be the same in the northeastern part of the state as at the southern end of the state. Property values will also vary, just as the expenditure per pupil for education will vary, depending upon where the property exists or education takes place. Similarly, the rate at which citizens are willing to be taxed, the tax burden per se, will vary as will the dynamics of the economy in which one lives.

Sometimes overlooked is that the local economy in which one lives is not exclusively defined by the boundaries of each municipality or school district, but rather on a regional basis. Nor are the boundaries of each school district exclusively defined as the boundaries of the municipality in which the district is headquartered. Only the City of Chicago and Elmwood Park are believed to have school and municipal boundaries which are coterminous. Thus the citizenry lives, works, plays, and pays taxes under a variety of local configurations. School districts come in all shapes and sizes, from several school districts in one municipality to one school district each in several counties. And, in postsecondary education, local control for a community college can be defined as several colleges within one county to several counties within one community college. It is thus important to keep in mind that the definition of "local" and "local control" can vary considerably.

Local economies are equally at variance. The McMahon Index as redefined by ISBE staff illustrates this. Yet with each of the localities, however identified, there exists pockets of revenue wealth and revenue poverty. Frequently those pockets are not where the children necessarily live and go to school. It would thus seem that there may be merit to provide some mechanism to reduce the disparity within a broader locality (region) while still respecting the natural cost of living differences around the state.

INTERMEDIATE TAX BASE: If a regional concept were to be incorporated as an intermediate tax base (ITB) between the current local and state level, what would be an appropriate definition of an ITB? A first consideration would be to use county lines to identify regions. The assessed valuations are already known and a mechanism for applying a tax rate and collecting the revenue is in place. However, when considering the disparities among population densities and assessed valuations from county to county, the educational disparity issue may be minimally resolved. Further, there are some counties which constitute single school districts, thus negating an ability to reduce educational disparity within those counties. Other region identifications could be Educational Service Region or Educational Service Center boundaries. The drawback here would be the need to reconfigure assessed valuations within those boundaries and the difficulty of setting up an appropriate authority to collect the taxes. In short, it would seem more practical and efficient to consider using an existing boundary in which the assessed valuation is already known and taxes thereunder are collected and distributed, and which does not consist of a single school district; a boundary which would have the capability of being identified and acceptable by local taxpayers; a boundary which generally reflects the cost of living commensurate with the area of the state in which it is located.

It is thus suggested that the boundaries used to identify the assessed valuation and tax collection for the community college districts be used as an intermediate tax base for the elementary, secondary and unit school districts within that region. Thus, there would be forty ITBs in Illinois from which a tax would be levied, revenues collected and distributed to the local school districts in that region. It is known that the minimum assessed valuation required to organize a community college district is $150,000,000 and the population must be not less than 60,000. Under this alternative, the only connection with community colleges is to use the same tax base defined as the ITB.

ITB RATE AND DISTRIBUTION: It is proposed that a tax rate be applied against all taxable property within the ITB. The rate could be equal to some percentage or fixed dollar amount of the OTR of the school districts within the ITB. The dollars generated from this rate would be distributed to each school district on a per pupil or weighted per pupil basis. Thus, dollars generated from the ITB flow to where the students go to school rather than where they are collected. The effect should be to reduce the disparity of funds available for educating the children. The result would be to cause an increase of the tax rate of some districts and similarly a decrease in other districts for the purpose of the ITB generation of funds. The revenues generated and distributed would more nearly reflect the cost of living, of doing business, of owning property, or operating the schools in the region and should not present an unfair tax burden or lack of tax effort which may be required to finance schools in other regions of the state.

LOCAL DISTRICT RATE: To avoid leveling down the funds available to the local districts where the tax rate and revenues generated are currently greater than the ITB revenues, it is proposed that such districts be allowed to levy a local rate equal to the difference between the current rate minus the ITB rate.

Thus, if a district were currently using a $4.00 OTR and the ITB rate was $1.50, the district could levy up to a $2.50 rate ($4.00 - 1.50 = $2.50). If the maximum rate currently permitted by referendum was higher than the $4.00 rate, the district, as needed, could levy up to that maximum minus the rate used by the ITB. Thus, the rates permissible with or without referendum would, in the future, be calculated by first deducting the ITB rate. The use of referendum for any taxing authority beyond the present maximum or that granted under the ITB would still apply. A district with an OTR below the ITB would only levy the ITB rate. Thus, if the ITB rate is $1.50, and the OTR rate is $1.25, the district would levy only the $1.50 rate.

THE ROLE OF THE STATE—ADEQUACY: To assure an adequate education throughout the state, it would seem appropriate to apply the adequacy methodology developed by the State Board of Education. It is assumed the adequacy level would in essence become a guaranteed foundation level applicable to the region or to each local district. It is suggested that the McMahon Index as redefined be used to adjust upward or downward the foundation level among regions. Again, a periodic updating of the foundation level and index could be structured into the funding program. State equalization would be used to fund those districts within each region which fell below the adequate level.

LOCAL, ITB TAX RATE REVISION: A problem with the current school finance plan is that it lacks the ability to self-correct for changes, up or down, in cost of living or other adjustments to reflect more current economic conditions. It is proposed that some adjusting mechanism be provided which can respond both to the rising costs of education and the willingness of the parents and taxpaying public to support quality education. Every ten years, or some other interim of time, there would be a recalculation of the ITB rate then in existence. For example, if the initial ITB rate were $1.50, but during the interim of time some local districts had rate increases which translated to an OTR of $1.75, then the new ITB rate would be increased by 25¢ to $1.75. Similarly, there would be a recalculation of the adequacy level, etc.

Bill Edley
State Representative
House District 95

Recognizing the importance of providing a World Class education to the children of Illinois, I applaud the efforts of the Task Force on School Finance for their attempt to bring per-pupil spending up to the recommended minimum of $3,898 and to bring property tax relief to some high-tax areas of Illinois. Despite the laudable intention of the Task Force, there are some fundamental problems with the plan that cause me to register my dissent.

The most troublesome mission proposed by the Task Force is implementing recommendations dependent upon an increase of $1.8 billion in state funding. Without the necessary state funding to provide the $3,898 adequacy level, most other reforms contained in the report are either unworkable or grossly unfair to property-poor downstate schools.

For my purposes, I will limit my comments to Task Force recommendations relative to property tax relief, the operating tax rate method selected for use in the revised General State Aid formula, and the 'adequacy vs equity' question. Even with the increased state funding, these Task Force recommendations are fundamentally flawed.

Taxing Structure

One of the goals of the Task Force was to reduce the reliance on local property taxes. Yet the Task Force recommended an increase in the property tax rate that school districts are required to levy in order to receive full General State Aid funding. The 5-year phase-in increase of permissive tax rates for elementary and unit districts contradicts a major goal of the Task Force—reduced reliance on property taxes.

The Task Force proposes that school boards may increase local property tax rates without referendum up to the new permissive tax rate. If school boards elected to increase their Operating Tax Rate (OTR) to the access rate required for full state funding, property taxes would increase by $48 million statewide.

Fifty-one percent of that increase would be concentrated in 96 downstate counties. In the context of the almost $9 billion that would be expended on K-12 education, requiring an increase in the formula access rate hardly seems worth the political capital needed to overcome the public aversion to property tax increases without referendum.

Additionally, the expanded permissive taxing authority opens the door for a significant increase in local property taxes. Under the current GSA formula, school districts are able to collect additional operating revenue by taxing property owners above the OTR access rate used in the GSA formula and still qualify for full state funding. If that practice were allowed to continue and all school districts voted to tax at the maximum permissive rate, the local property tax increase could jump from $48 million at the access rate to over $500 million.

Finally, the proposed variable OTR formula rate introduces significant uncertainty into the distribution of GSA funding among school districts. School districts currently taxing between the access rate and the top OTR rate, 3.33% and 4.07%, respectively for all unit districts, would have a financial incentive to reduce local tax rates to the access rate.

This property tax rate reduction would trigger additional state funding through the GSA formula and replace the lost local tax

revenue with state GSA money on a dollar-for-dollar basis. The exact cost to the state treasury cannot be accurately predicted at this time but would certainly amount to several hundred million dollars. This is in addition to the $348 million in direct property tax relief recommended by the Task Force.

Unlike the Task Force tax relief recommendation, which is reduced as school district Equalized Assessed Valuation (EAV) increases, the formula change would be permanent. Because the GSA formula change is dynamic; that is, changes in one school district affect funding allocations to all other districts, state appropriations for General State Aid would have to increase or a reduction in the foundation level would be required. In effect, a school board could write a check on the state bank account by lowering their local tax rate without any loss to that school district's operating revenue.

Property Tax Relief

By focusing on the property tax rate as the mechanism to provide property tax relief, the Task Force ignores the regressive nature of the property tax levy. A more equitable method would be calibrating property tax relief to the ability to pay–i.e., net income before taxes.

The Task Force-recommended method is also faulty in the distribution of property tax relief among the various classifications of property owners. A significant portion of the $348 million reduction in property taxes will accrue to commercial and industrial property tax payers.

Residential homeowners would receive 59.8% of the tax relief, and farmers would receive 1.4%, with the remaining relief going to commercial and industrial property owners. It should be emphasized that the majority of the residential property tax relief will be concentrated in suburban Cook and the five collar counties.

A better method would be providing a state income tax credit based on a percentage of property taxes paid by a property owner. Constraints could be placed on the class of property owner eligible and limits could be placed on the total deduction allowed.

Adequacy vs Equity

In the early organizational process the Task Force agreed to focus on the adequacy of financial resources provided to each school child rather than the funding equity between property-rich and property-poor school districts.

The consensus of the Task Force was that the "leveling down" approach would be too disruptive. But the Task Force went too far and totally ignored the equity question in most of its final recommendations. Taken individually, other than increasing the foundation level to $3,898, the final Task Force recommendations actually exacerbate the funding disparity.

Specifically, the Task Force proposals to include a Regional Cost Adjustment, to increase the permissive tax rates, to provide $348 million in property tax relief (90% of which goes to suburban Cook and the five collar counties) are all disequalizing. Even the proposal raising the Chapter 1 cap from .625 to .75 results in 90% of the increased state funding going to a school district in the top 25% ranking statewide of local property wealth per student–the City of Chicago Public schools.

Alternative Funding Sources

A promising funding alternative that has been used by other states like Texas and, most recently, by Kansas, is a more even distribution of local property taxes among school districts. Unfortunately, the Task Force rejected–after contentious debate–either splitting the tax base by the state sharing taxing authority with the local school district of the commercial and industrial property or by replacing some local levies with a uniform statewide property tax levy.

Conclusion

Without a commitment from the Governor to provide the financial resources necessary to fund schools at the $3,898 foundation level, all legislative action should be put on hold. Absent the increased funding, citizens concerned about providing World Class educational opportunities to every child in Illinois should oppose piece-meal legislative initiatives to implement Task Force recommendations.

William G. Farley
Associate Superintendent for Business Services
Oak Park and River Forest High School

I respectfully submit the following observations relating to the Task Force report that was approved on December 1, 1992.

Adequacy

It is essential that we continue to increase the foundation level annually so that we do not find ourselves woefully behind the appropriate level of funding after five years. Had the current State Aid formula been adequately funded each year, the need for the Task Force would not have been necessary. In this and several other key areas, it appears that we are limiting ourselves for financial reasons when the initial charge of the Task Force was to develop an appropriate and equitable method of funding of schools without regard to availability of funds. Freezing the rate of one of the most important components of the formula is contrary to that directive.

Regional Cost Adjustment

By collapsing the McMahon Index we have violated a principle of equity and fairness. To a large part, the very money needed to fund this proposal will come from those areas that are negatively affected by collapsing the index.

Equity

We should not concern ourselves with the school districts who wish to support education on a local basis to a level above the ratios recommended. It is obvious that taxpayers in some communities value public education more than they do in other communities in the State. We should not restrict this admirable effort.

Efficiency

As I look back on our discussion, it is obvious that we did not take advantage of an opportunity we had to address school size, especially as it relates to high schools. Before additional money is poured into small high schools, we should either demand consolidation or develop a plan for interactive electronic and video instruction if sparsity of students restricts the ability to consolidate.

Property Tax Relief

It is very unfortunate that such a major component of the final report was thrust upon us at the 11th hour. Not only were we as members unable to receive input as well as develop our own position, we did not permit residents of the State at our five public hearings to react to this proposal. Although attractive on the surface, I foresee that a number of districts will be caught in a "California-type Proposition 13" dilemma. We have, in effect, tied the hands of those school districts that in the past have exhibited a high degree of tax effort with moderate to low equalized assessed valuation per pupil. The very wealthy and very poor districts remain unaffected since many of them have an educational fund tax rate below the rollback threshold. We also did not address what would happen if the State did not have enough money to meet this obligation. Would the supplement be pro-rated or would other areas of education receive reduced funding? School districts have repeatedly seen categorical funding pro-rated to meet the State's financial capability. Rather than roll back the education rate, the State should make a direct supplement on behalf of the school district to the County Clerk and have the educational fund taxes abated in the same dollar amount. In this way, the school district does not lose its tax rate. The provision that a successful referendum for education purposes would result in the State immediately withdrawing its supplement is onerous. I would suggest that this restriction be phased out after five years. If not, many excellent school districts will find their hands tied in meeting the needs of their students since they would have to convince their voters to tax themselves not only for new dollars but for the loss of the State supplement as well. It is difficult enough to pass tax referenda without being restricted by the action of the State.

General State Aid

Another area in which we let financial concerns restrict what was appropriate is in the area of the use of a fixed rate in the formula. Many people spoke at the hearings in support of the use of a fixed rate but we opted for a combination rate instead. It should also be noted that Chapter 1 weighting of students increases the dollars received from the formula for those districts that are already receiving Chapter 1 restricted funding, in essence, providing a double benefit. An additional concern that must be addressed is the development of accurate assessment practices throughout Illinois. A change I feel strongly about is the reduction of high school weighting from 1.25 to 1.10. Having worked in a unit district for many years, I can assure you that the cost of educating, protecting, counseling, providing for extracurricular activities, etc., for high school students in a school building that is much larger, open year around, often a community center, etc. results in a greater differential than 10% more than an elementary school student. When reducing the weighting, were factors such as this taken into consideration? I question the factors that were in use that developed this reduction in weighting.

In conclusion, I wish to reiterate several important points that were discussed and that met the approval of the Task Force. If the Task Force Report is to be enacted, total funding for the Task Force recommendations must be available and without shifting it from elsewhere as was done in the case of the lottery program. A topic that was not discussed by the Task Force due to its political nature was that of the tax cap on the collar county school districts. These tax caps must be eliminated if we are to avoid the degradation of educational programs in the fine school districts in these counties. It would seem that enactment of the Task Force Report with additional revenue would be the appropriate time to do so. After all, the main reason for the significant reliance upon property tax is the lack of sufficient funding by the State since the 1970's.

Norman T. Jones
Chief Executive Officer
GROWMARK

I would like to take this opportunity to make some comments about the final report and some comments on the computer runs on tax relief.

1. First, I totally support the per student cost of providing an equitable education program at the per student cost of about $3,900 per student as long as we keep in mind that this figure is already one to two years outdated.

2. I support the collapsed McMahon Index for Regional Cost Adjustment. We must always keep in mind that Professor McMahon told us to only consider this index on the expense side; otherwise, state aid will flow to those districts that already have citizens with the greatest ability to pay for and support their local educational programs.

3. I am opposed to increased authority for local school boards to raise their operational tax rate without referendum and then require them to be at 90 percent of that rate for access to state aid. This will put extreme pressure on local school board members without public understanding of the permissive but then mandatory nature of this authority. I believe it further delays the time when small, inefficient, educationally ineffective, and hard-to-finance districts make the decision to become part of a larger, more efficient district with better educational opportunities for students.

4. I do not favor any increase in the flat grant for those districts having the capacity, through local wealth, to fund a high quality educational program. To increase the flat grant has the impact of applying the McMahon Index to the income side of school finance, which as you will recall, Professor McMahon said would flow state aid to those districts who already have the greatest capacity to pay both through local personal income wealth and property tax wealth.

5. Because of my business commitments and travel schedules, I have not been able to completely analyze the property tax relief computer printout except to pull some totals together. The summary I have put together shows the following breakdown:

Districts or Counties	$ of Tax Relief	Percent of Total
8 Most Northeastern Counties	$333.0 Million	95.7
4 Other Counties Over $1 Million	7.8 Million	2.2
12-County Total	340.8 Million	97.9
Total – 48 Counties Receiving Relief	348.0 Million	100.0

Based on this summary, it would appear that tax relief will flow to only very selected districts and be an illusion to those who hear tax relief but then obtain none.

In summary, the state needs to provide a quality education program for all students through grade 12 and reduce the burden of property taxes. To assure those funds are properly utilized will require a restructuring of districts (932 districts is too many) and an added dimension of accountability for funds and learning success by students.

Senator Doris C. Karpiel
Senate District 25

State Representative Mary Lou Cowlishaw
House District 41

The Process: It is unfortunate that the property tax relief proposal was hastily crafted by the Executive Committee and shared with the full Task Force at the last moment. Property tax relief was the number four item included in the Task Force's mission statement adopted in October, 1990. Hours were spent discussing other topics in the mission statement: equity, adequacy, regional cost differences, etc. The issue of reliance on property taxes is as important in the scope of school finance as are these other topics. The leadership of the Task Force should have been courageous enough to let the entire Task Force examine property tax relief thoroughly. Last-minute surprises do not encourage broad support, nor do they necessarily indicate sound thinking.

Collapsed McMahon Index: Everyone agrees that the cost of educational services varies across Illinois. Of all indices examined by the Task Force, the McMahon Index provided the greatest level of accuracy. It provided a cost index for each of Illinois' 102 counties ranging from 70.4 to 114.4. The Task Force's action to "collapse" this index reduced the range to 90 to 110. The formula will not factor in actual costs; it will factor in artificial costs created solely for the formula. Something that actually costs 70 cents downstate will, in the eyes of the formula, artificially cost 90 cents. Something in DuPage County that actually costs $1.13 will only cost $1.10 in the eyes of the formula. If we are to factor in a regional cost adjustment, it should be the actual cost and not an artificial "leveling out." The Task Force's formula does not recognize actual cost differences as much as it inflates costs (and entitlements) for districts who do not actually experience such inflated costs.

Fixed rate option: The Task Force was not given the opportunity to debate this provision; the co-chairs said that they wanted to hear from the public on this important issue. However, the Task Force's recommendations completely ignore the testimony on what tax rates should be used to calculate a district's local contribution towards the formula's foundation level. At the five hearings held by the Task Force, 14 persons testified against using the operating tax rate and 3 times as many persons testified in support of the fixed rate option. From this testimony, the Executive Committee recognized that the OTR should not be used, but then adopted the combination option under the guise of "making progress toward the equity goal." Why did the Task Force hold hearings if it was going to ignore the testimony that it requested?

We strongly suggest that the Task Force accept the recommendations made at the public hearings to use a fixed rate in the general state aid formula.

Equity: There were concerns expressed in testimony about the equity goals recommended by the Task Force. Questions were raised about the report's use of "unrestricted revenues per TWADA." The McLoone Index, one measure of equity, uses "revenue per pupil" and "total number of dollars per pupil." If they are used interchangeably, this will have a major impact on equity ratios. Also, the equity goal of a ratio of 95th to the 5th percentile of 1.5 to 1 is clearly inconsistent with the "leveling up" approach advocated by the Task Force. Testimony by the League of Women Voters said "The League believes that the state should concentrate its efforts on raising the financial resources of poorer districts without requiring any district to decrease or limit its per pupil expenditures." We would agree.

Efficiency - Simply changing the formula will not necessarily help education: A few years ago, Illinoisans were told that Chicago schools would be rejuvenated if the General Assembly simply passed the Chicago School Reform Act and let Chicagoans run their own schools. It is four years later and Chicago ranks last in student achievement and first in student drop-outs among the nation's largest schools. We are now being told that all our children will receive substantially equal world class educations if we simply adopt the recommendations of this Task Force. Expectations are again high (this time for the entire State), but the results may again be more of the same until we choose to deal with the entire system and not just pieces of it.

Just as an old car doesn't necessarily run better with simply more gas, our educational system may not necessarily run better with simply more money. Many facets of the system need to be re-examined to ensure that the new dollars pumped into education are spent better and not just simply spent.

In Chicago, we need to allow school principals to pick the best teachers for their schools and control all staff within their schools. We need to abolish cumbersome protections for supernumerary teachers and burdensome administrative meddling by the Pershing Road bureaucracy. Downstate, communities need to put aside geographical loyalties and consider consolidation for the good of their students. Statewide, we need to reward schools for good performance, provide easier routes into the teaching field for professionals in other careers, and remove State mandates that burden schools and rob them of critical funds.

We suggest that in addition to a new spending formula the system would function better if it were changed to spend those added dollars more efficiently and effectively.

John J. McNamara
State Representative
House District 27

The following is my opinion on two important factors that should be considered by the General Assembly in addition to those included in the general recommendation.

The first is the tax relief component. One of the most pressing problems confronting the citizens of our State is that of property taxes especially as they pertain to those seniors who have lived in their homes for many years and the area around them has built up raising their assessed valuation. This occurs in expanding urban areas and raises the Equalized Assessed Valuation (EAV) of their property which inflates the property tax on that property. Although the market value of their home has increased, it is impossible for seniors to take advantage of rising property values. First, it is a home full of memories, and where people have shared their lives, they are reluctant to leave those memories. Second, if they were to sell and take advantage of those market values, they would still have to find a new place with similar high market values thereby negating any savings. Third, to find a home with lower tax burdens they would have to move to more remote areas eliminating their access to convenient shopping, social functions or churches. Many of the higher property taxes are caused by increasing costs of education, and as a result, increases from $100 to $500 or more in property taxes per year come out of a fixed income. That income may have been established many years ago and the value of that fixed income has diminished by 3% to 10% a year due to cost of living increases. On top of this we see increasing medical costs that force seniors to the lowest standard of living and in many cases eliminate all their assets and force them on public aid and into homelessness and poverty.

The cost of these hardships to our senior population also creates a tremendous impact on the cost to state government. Public aid roles swell as we force seniors into bankruptcy due to the higher tax burden and force them into a life their pride would not permit them to accept. We destroyed the lives of those persons who supported us all our lives and in many times relegated their last days to a life of misery and early death.

We in this Task Force can do something to help start solving that problem. I have proposed a senior citizen property tax freeze which will impact the entire state. This plan also caps the growing costs of senior property tax rebates known as the Homestead exemption. It caps that exemption at its present level while the property tax freeze affects those seniors throughout the state that are in most need. It will have a total property tax impact of $13,000,000 statewide. It does not take money from schools but allows them to plan for the decrease in revenue. Although the tax loss is insignificant for individual taxing bodies the value in keeping people off public aid roles and preserving a quality of life for many is immeasurable. A report prepared for me by the Economic & Fiscal Commission shows the minimal estimated effect on each governmental body.

The second issue that must be addressed if we are to get meaningful change and fairness into our School Aid Formula is that the Equalized Assessed Valuation (EAV) must be eliminated as a measure of district wealth. It is generally accepted that the EAV does not reflect the wealth of the area. Average personal income from the tax forms must be used if we are ever to have a fair system. I am convinced that we, in this State, can develop the data base and means to realistically use a school district

personal income factor instead of the EAV. This concept will bring real change and tax fairness to school funding. If this Task Force does not work to bring about that meaningful change it has fallen far short of its goal.

Many changes have been brought about through the hard work of the Task Force. The interchange of ideas with the many viewpoints have produced a better understanding of the various agendas. The response of the State Board in this endeavor has been a credit to this State.

Thomas Reid
Illinois Manufacturers' Association

Introduction

We congratulate the Illinois State Board of Education on their initiative to work with a diversity of constituencies in Illinois to rethink the vision of education for our state. Education is one of the most important state responsibilities because it will determine the future of Illinois; and therefore this subject is indeed worthy of the most powerful resources we can muster. This paper is an attempt to crystallize the thinking of the private sector towards building a vision for Illinois education and, in turn, the future of Illinois.

Governor Edgar has summarized his thoughts about education when he reiterated the link between a skilled workforce and future economic growth. During his gubernatorial campaign, he noted that "one business executive after another expressed anxiety about whether our state would have enough skilled workers for the jobs of the 1990s and the 21st century." Speaking to the Executives' Club of Chicago, Edgar went on to say that "you and your counterparts across Illinois insisted that our schools must produce better results, and I agree. Improving education must be our top priority. We have no choice."

Although many educators disagree, recent surveys reinforce Governor Edgar's recommendations and indicate a sharp difference of opinion between employers and educators. For example, 66% of the business leaders reported that the schools were doing a poor job in providing students with a good grounding in math and science, whereas only 15% of teachers and 9% of school superintendents agreed. And in the area of writing, only 12% of employers rated students positively on "learning how to write well"; whereas over 70% of parents and students gave students a "positive" rating in this area.

Summary

In our attempt to broaden the vision for the private sector, our vision for Illinois should make it possible for all students to be encouraged and challenged to take full responsibility for their own preparation for adulthood; and our vision will include that each student shall acquire a broad, liberal education; each student shall acquire occupational and entrepreneurial skills in order to become a productive person; each student shall acquire the moral, ethical, and aesthetic values necessary to become a good citizen; and the Illinois State Board of Education will take responsibility so that at least 90% of all youth will graduate from secondary school by the year 2000 with world-class standards of performance in each of the above areas.

As the National Business Roundtable has proposed, we suggest that the dozens of possible activities and strategies to implement this vision should be incorporated into a plan for systemic change so that it will be available to all and can be the basis for a coordinated effort.

Strategy for Implementation

Although the Illinois Legislature and the Illinois State Board of Education have made significant improvements in education during the past decade, especially with the very strong legislation in 1985, 1988, and 1990, we still have a long way to go to implement that legislation and we still need to make significant structural changes. The Illinois Goals developed and adopted by the Illinois State Board of Education in 1992 are an excellent beginning, but they need more specificity. In comparison to all other developed countries, we still do not yet have an education system; and the basic elements needed to be added are being widely discussed, are generally agreed upon by many national leaders, and are summarized in this paper.

Although additional funding is required in many districts in Illinois in order to meet the basic instructional needs of students, it is our (private sector) considered opinion that more state funds for Illinois education under present circumstances will **not** produce the desired educational benefits until appropriate structural changes are made. Therefore, it is our (private sector) recommendation that additional state funding for education will be contingent upon the following changes (as a package):

1. Certificate of Initial Mastery (CIM). Performance-based outcomes will be required for all 16-year-olds, as proposed in America's Choice.
2. A commitment towards radically upgrading academic education in all high schools with strong incentives for such programs as the Advanced Placement Program and the International Baccalaureate.
3. A commitment towards radically upgrading occupational education and towards a strong school-to-work transition system, such as Tech-Prep and Youth Apprenticeship, with outcome-based performance standards determined by the employer/employee communities. Illinois universities and companies must give full credit for work-based learning as is the case in Germany and Denmark. In order to accomplish these goals, the most important step will be the establishment of an Illinois Occupational Skill Standards Authority.

4. The establishment of local/regional centers (Educational Service Centers?) to provide for a dramatic increase in the quality and quantity of occupational information for all middle school students to adults. The General Education track will be phased out in favor of the academic track and the Tech Prep track.

5. Refocusing Higher Education, employers, and the general public to support this fundamental reorganization in whatever ways are necessary, such as raising outcome-based standards of admission to Illinois universities, establishing criteria for placement in community colleges, providing legislative relief and incentives for business to hire students in Tech Prep and apprenticeship programs, etc.

6. The State Board of Education will continue to invest in the IGAP system of student assessments. The report cards to local schools and to the public should be greatly strengthened, including international comparisons of performance characteristics in the 3 Rs. The purpose of the assessment system and the report cards is to encourage local schools to recognize their own strengths and weaknesses, and to encourage self-monitoring and self-improvement.

7. Expand efforts such as Project Success that coordinates all state and community resources to provide a lot more information and services to parents so that they will be empowered to help their children more effectively, they will support more homework, and they will be able to make better choices about schools.

8. Analyze the data from projects in America and abroad and establish demonstration projects in Illinois on "Choice" so as to determine what effects parental choice of schools has on student outcomes.

9. All Illinois schools, and Chicago in particular, must reduce administrative and support costs. Chicago should fully implement the reforms started in 1988, such as full implementation of site-based management and allowing the local school councils and the school principal to have full responsibility and authority to carry out their responsibilities.

10. Illinois education will only improve if instruction in each classroom is improved. Therefore, the Illinois State Board of Education and all community resources possible should encourage systemic changes in values and beliefs in all schools through such programs and practices as Accelerated Schools; use of calculators, distance learning, and instructional technology; new and improved instructional materials; more time for teachers to prepare for their lessons.

11. If we truly believe all students can learn, we must provide the resources for students who fall behind to do work after school, on Saturdays, during holidays, and especially during summer time. To provide for summer school and a longer school year, more efficiency, and more educational professionalism, we should move towards year-round education, 11-month contracts.

12. Illinois teacher certification requirements should be changed to require additional knowledge in specific subject areas, and to minimize methodological requirements. The State Board of Education should also widen alternative certification so as to open all areas of instruction and administration to qualified individuals such as the New Jersey legislation.

13. There must be an equitable basis for distribution of state aid so that each student will receive an adequate level of funding. This will require additional funds for education which should come first by reducing costs in all areas of government, including education (see item #9 above), before any taxes are increased.

Additional information may be obtained by contacting the Illinois Manufacturers' Association, 209 West Jackson Blvd., Suite 700, Chicago, Illinois 60606-0998 (telephone: 312/922-6575).

Mike Weaver
State Representative
House District 106

I would like to offer the following in deference to the majority recommendations in the final report.

1) The recommendations should include the once-adopted process of capturing excess EAV from those districts that possess unusually high per-student wealth. It should be limited to the top 1% of school districts, which in our understanding, includes all school districts which host nuclear power plants. This "sharing of wealth" would allow the state to reduce the disparity between the high and low expenditure per pupil and thus improve the equity dilemma which has brought the educational system to court.

2) The recommendations should also include tax relief, however calculated from the total operating tax rate, rather than from the tax rate for the education fund. It appears contrived to use the OTR to qualify for access to the formula but to use the Ed Fund rate to qualify for tax relief. Such calculations could result in a district with a lower OTR qualifying for tax relief than one with a higher OTR simply because a larger Ed Fund rate is within. Local taxpayers who rarely differentiate among the tax rates within the OTR would not understand why they do not qualify for tax relief while paying higher taxes overall.

3) While minimum tax rates to access the formula are understandable, it is difficult to communicate the reasons for removal (even temporarily) of the tax caps already in place. Unless some methodology is designed to compensate for rising EAV, this provision would prove to be an enormous windfall for those districts while at the same time increasing their flat grant amount (5% to 7%). The overall impact could mean increased State funds for the district through the grant and dramatically increased funds through local property taxes by an increasing rate applied to an increasing EAV.

Appendix A

Task Force on School Finance
Purpose and Scope

Purpose

House Joint Resolution #18 of the 86th General Assembly provided for the establishment of a Task Force on School Finance. The Task Force is "to determine the inequities of the current method of funding elementary and secondary education and to devise a new plan which shall ensure adequate State funding for all school districts in Illinois at a greater level than the present system provides." To carry out this charge, the Task Force will examine many aspects of school finance in Illinois. As part of this examination, the Task Force will accept testimony and study current methods of financing schools. After review and deliberation, the Task Force will make specific recommendations regarding funding for Illinois' public school districts.

Scope

The Task Force will address many topics related to school finance in Illinois. These topics may include, but not be limited to the following.

EQUITY–The legislation creating the Task Force indicates that equity is to be addressed. It must be determined how equity should be approached, how it will be measured, how we will know when an equitable system has been achieved and how long the process will take.

ADEQUACY–The legislation creating the Task Force also indicates that adequacy is to be addressed. Again, a definition of adequacy is elusive. Does adequacy mean minimal or average or something else? Is adequacy to be defined fiscally or programmatically? Typically, adequacy is thought of in terms of a per pupil support level. If so, there must eventually be agreement on a methodology to determine this adequate level of funding. Once a methodology is agreed upon, a mechanism for assuring adequate state funds must be developed.

LOCAL PROPERTY TAXES–Local property taxes are a major source of funding for Illinois' public schools accounting for approximately 55% of all revenues in FY 89. Even though the state property tax base has increased an average of 6% per year since 1984, over half of our school districts have declining tax bases. Property tax rates also vary significantly by type of school district and geographic region. These facts contribute to the wide variation in local property taxes per student that exists in the state. Assessment practices, fund consolidation, regional tax bases and the possibility of removing certain categories of property from the local tax base may be part of the discussion.

PROPERTY TAX RELIEF, REVENUE SOURCES AND TAX POLICIES–Currently, the property tax base is reduced in excess of $8 billion because of property tax relief provided to Illinois property taxpayers through homestead exemptions. Several attempts to provide additional property tax relief have been made in recent years. The challenge is to provide property tax relief to the taxpayer while not significantly reducing the revenues available to local governmental agencies, including school districts. One approach to the problem is to grant property tax relief while subsequently replacing property tax revenues with guaranteed state revenues. Property tax relief and lessening the demand on the local property tax base may lead to a heavier reliance on the income tax. State tax policies are intertwined with providing rational property tax relief and supplemental revenue sources.

CORPORATE PERSONAL PROPERTY REPLACEMENT REVENUE–Approximately $350 million intended to replace lost revenue due to the abolishment of the tax on corporate personal property is distributed to Illinois school districts annually. The distribution is determined by a formula developed in 1979 which was based on the distribution of corporate personal property wealth. It has been suggested that the distribution of corporate personal property wealth is substantially different today than it was ten years ago and that the formula for the distribution of those funds needs to be reconsidered.

STATE FUNDING–In FY 91, the state appropriated in excess of $3 billion to fund over seventy elementary and secondary education programs. By far, the largest state program is general state aid with an appropriation of $2.1 billion. Formula driven state categorical programs include special education, regular and vocational transportation, the free lunch/breakfast program and bilingual education. Categorical formulas and other reimbursement mechanisms may be examined as to their fairness and effectiveness. The general state aid formula and its components will be discussed with an emphasis on equalization and simplification. Formula tax rates, grade-level weightings and weightings for students from low-income families will be reviewed.

REGIONAL COST DIFFERENCES–It has been suggested that the reason for expenditure/revenue differences among school districts of the state is simply that there is greater cost for similar services in some areas. Currently no attempt is made to adjust state funding for this perceived regional cost difference.

EFFICIENT USE OF TAX DOLLARS–It is necessary to evaluate the efficient use of tax dollars used in the delivery of educational services to students.

Appendix B

Adequacy
A Proposed Methodology
May 21, 1991

House Joint Resolution #18 of the 86th General Assembly provided for the establishment of a Task Force on School Finance. Part of its charge is "to devise a new plan which shall ensure adequate State funding for all school districts in Illinois at a greater level than the present system provides." In its Purpose and Scope, the Task Force has agreed that "Typically, adequacy is thought of in terms of a per pupil support level. If so, there must eventually be agreement on a methodology to determine this adequate level of funding."

The intent of this paper is to present a methodology for determining the adequate level of funding referred to by the Task Force. The intent of this paper is **NOT** to put forth a standard against which educational programs across the state will be judged. For example, while the class sizes included are based on research, the numbers could be changed within the methodology. The methodology involves a six step process and is outlined below.

Step 1. Make assumptions concerning program and class size.

Step 2. Make assumptions concerning requirements for teachers.

Step 3. Make assumptions concerning other certified staff and administrative needs.

Step 4. Calculate the salary cost of certified personnel.

Step 5. Calculate the total cost using a ratio of salary cost to total cost.

Step 6. Adjust for program cost differences.

Steps 1 - 3 above refer to making decisions regarding program needs and staffing for those programs which are necessary and reasonable to provide an adequate education. Steps 4 - 5 refer to costing the staffing for those programs. Step 6 adjusts the "adequate" cost per pupil to allow for differences in cost in various parts of the state.

Following is an example that uses this methodology. Section I describes assumptions concerning regular program adequacy at three different educational levels. Section II costs out these programs using as its basis average teacher and administrative salaries and salary expenditures as a percentage of total expenditures for regular education. Section III describes an example of how to adjust for regional cost differences.

Section I
Assumptions Regarding
Regular Program Adequacy

Grade K-6 Education

The two paramount decisions which need to be made are class size and personnel needs. Previous research conducted by ISBE indicates that the target class size for a self-contained K-6 classroom is 23 students. A classroom with 23 students and 1 teacher would require .0435 (1 divided by 23) teachers per student. Assumptions regarding teacher needs for **one student** in a self-contained K-6 classroom are:

.0435	Full time classroom teacher	Assumes 1 per 23 students
.0040	Physical Education teacher	Assumes 1 per 250 students
.0020	Art teacher	Assumes 1 per 500 students
.0020	Music teacher	Assumes 1 per 500 students
.0015	Librarian	Assumes 1 per 650 students

.0530 = TOTAL TEACHER NEEDS FOR ONE STUDENT

In addition, the support and administrative needs are:

.0020	Certified support staff	Assumes 1 per 500 students
.0022	School administration	Assumes 1 per 450 students
.0013	District administration	Assumes 1 per 800 students

Grade 7-8 Education

In junior high, the two main decisions which need to made are class size for each subject area and which subject areas are to be studied. It is assumed that the curriculum studied in junior high will be the same for both years, that each day contains seven periods and that teachers teach five periods per day. A typical one period class of 24 students and .2 (1 teacher divided by 5 periods) teachers would require .0083 (.2 divided by 24) teachers per student. Assumptions regarding teacher needs for **one student** in junior high school are:

.0083	English teacher	Assumes a class size of 24
.0083	Mathematics teacher	Assumes a class size of 24
.0083	Science teacher	Assumes a class size of 24
.0083	Social Science teacher	Assumes a class size of 24
.0056	Physical Education teacher	Assumes a class size of 36
.0042	Study Hall teacher	Assumes a class size of 48
.0083	Other teacher i.e. Fine Arts, Vocational, Foreign Language	Assumes a class size of 24

.0513 = TOTAL TEACHER NEEDS FOR ONE STUDENT

The support and administrative needs are:

.0015	Media center staff	Assumes 1 per 650 students
.0040	Certified support staff	Assumes 1 per 250 students
.0030	School administration	Assumes 1 per 330 students
.0013	District administration	Assumes 1 per 800 students

Grade 9-12 Education

In senior high, as in junior high, the two main decisions which need to made are class size for each subject area and which subject areas are to be studied. It is assumed that the curriculum studied in senior high will change each year, that each day contains seven periods and that teachers teach five periods per day. A typical one period class of 23 students and .2 (1 teacher divided by 5 periods) teachers would require .0087 (.2 divided by 23) teachers per student for one year. That same class for four years would require .0087 x 4 = .0348 teachers per student. Assumptions regarding teacher needs for **one student** in senior high school for **four years** (28 periods) are:

4 x .0087 = .0348	English teacher	Assumes a class size of 23
3 x .0087 = .0261	Mathematics teacher	Assumes a class size of 23
3 x .0095 = .0285	Science teacher	Assumes a class size of 21
3 x .0080 = .0240	Social Science teacher	Assumes a class size of 25
4 x .0057 = .0228	Physical Ed. teacher	Assumes a class size of 35
4 x .0033 = .0132	Study Hall teacher	Assumes a class size of 60
7 x .0100 = .0700	Other teacher i.e. Fine Arts, Vocational, Foreign Language	Assumes a class size of 20

.2194 = TOTAL TEACHER NEEDS FOR ONE STUDENT FOR FOUR YEARS

.0549 = TOTAL TEACHER NEEDS FOR ONE STUDENT FOR ONE YEAR

The support and administrative needs are:

.0015	Media center staff	Assumes 1 per 650 students
.0050	Certified support staff	Assumes 1 per 200 students
.0005	Department head	Assumes 1 per 2000 students
.0018	School administration	Assumes 1 per 550 students
.0013	District administration	Assumes 1 per 800 students

Section II
Determination of Regular Education Adequate Program Cost

In order to determine the cost of an adequate program, assumptions regarding personnel costs must be made. The costs of teachers and administrators are based on statewide averages. In order to account for costs other than certified personnel, salary expenditures as a percent of total expenditures has also been used. The pertinent information is given below.

1. Based on 1988-89 audited financial statements, salaries for selected personnel account for 54% of total expenditures statewide. Total expenditures are defined as the sum of all expenditures less expenditures for bond and interest payments less expenditures for categorical programs. Total expenditures include such items as building maintenance, transportation, classified staff salary, benefits etc.
2. The average teacher salary for school year 1990-91 was $34,642.
3. The average salary for an elementary principal in 1990-91 was $53,504.
4. The average salary for a junior high principal in 1990-91 was $53,567.
5. The average salary for a high school principal in 1990-91 was $54,558.
6. The average salary for a district superintendent in 1990-91 was $63,460.

Given these average salaries and the assumptions regarding personnel needs for regular education, the cost of regular education for one student is outlined below.

Grade K-6 Regular Education:

Teachers	.0530 x $ 34,642	=	$ 1,836
Certified support staff	.0020 x $ 34,642	=	69
School administration	.0022 x $ 53,504	=	118
District administration	.0013 x $ 63,460	=	82
Certified Salary Cost for one Student		=	$ 2,105
Adjust to Total Cost (Divide by .54) as described in 1 above		=	$ 3,898

Therefore, the per student cost for regular K-6 education is $3,898.

Grade 7-8 Regular Education:

Teachers	.0513 x $ 34,642	=	$ 1,777
Media center staff	.0015 x $ 34,642	=	52
Certified support staff	.0040 x $ 34,642	=	139
School administration	.0030 x $ 53,567	=	161
District administration	.0013 x $ 63,460	=	82
Certified Salary Cost for one Student		=	$ 2,211
Adjust to Total Cost (Divide by .54)		=	$ 4,094

Therefore the per student cost for regular junior high education is $ 4,094.

Grade 9-12 Regular Education:

Teachers	.0549 x $ 34,642	=	$ 1,902
Media center staff	.0015 x $ 34,642	=	52
Certified support staff	.0050 x $ 34,642	=	173
Department head	.0005 x $ 34,642	=	17
School administration	.0018 x $ 54,558	=	98
District administration	.0013 x $ 63,460	=	82
Certified Salary Cost for one Student		=	$ 2,324
Adjust to Total Cost (Divide by .54)		=	$ 4,304

Therefore the per student cost for regular senior high education is $ 4,304.

Section III
Adjustments to Cost

Each of these costs would be adjusted annually to account for yearly cost of living adjustments.

Additionally, it is generally agreed that the cost of education varies across the state because of various factors including cost differences of housing, labor and transportation. Stated another way, the goods and services that can be purchased for $1.00 in one part of the state may cost $1.50 in another part of the state. For these reasons, the costs derived above should be adjusted for geographic cost differences.

In order to adjust, it is assumed that these costs calculated above will provide not only an adequate educational program but are "average" in some respect. This simply means that in some areas of the state these costs will have to be increased and in some areas decreased.

One method of determining the amount of increase or decrease is to categorize Illinois counties into five groups on the basis of a previously defined index. The one chosen for this example was developed by Dr. Walter McMahon at the University of Illinois. Using his most recent data, the highest index is approximately 62% greater than the lowest index. Based on the five groups, adjusted costs were calculated. Adjusted costs for regular elementary education for one student are given below.

Grouping	Adjusted Elementary Cost
High	$4,678
High Middle	4,288
Middle	3,898
Low Middle	3,508
Low	3,118

Appendix C

Alternatives for School Finance Reform in Illinois
Elementary and Secondary Education
Task Force on School Finance
1990-1991

The purpose and scope of the Task Force on School Finance put forth the major topics to be addressed by the Task Force during its deliberations. The purpose and scope document appears as Appendix A.

Meeting Schedule and Topics Addressed by the Task Force

October 10, 1990	Organization of Task Force Development of Purpose and Scope
November 13, 1990	Property Taxes
November 28, 1990	General State Aid
December 18, 1990	Geographic Cost Differences Inequities of the Present System Corporate Personal Property Replacement Taxes
January 24, 1991	Categorical Program Funding
February 7, 1991	Adequacy
February 27, 1991	Equity
March 5, 1991	School Finance Litigation Illinois School Finance Lawsuit
March 12, 1991	The SBE Regulatory Study Governor Edgar
March 27, 1991	Update on Adequacy Grade Level and Poverty Weighting Reorganization Facilities
April 11, 1991	Property Tax Relief Revenue Sources Organization Input Review

After gathering pertinent data on the topics addressed above, Task Force members asked that various alternatives be presented in each area of concern to facilitate discussion which would lead to their final recommendations to the General Assembly. Alternatives are presented below.

It is not presumed the alternatives presented are all inclusive, but rather that other alternatives are likely to surface during discussion. It should also be noted that the areas delineated below are not mutually exclusive and therefore should not be considered independently.

Adequacy

Only three alternatives appear to be readily available to the Task Force when attempting to determine the per pupil cost of education.

Option 1	Continue to let the General Assembly determine adequacy through the annual appropriations process. That is, the general state aid foundation level will continue to be a function of the appropriation for that program. Funding for categorical programs will also continue to be a function of the appropriation.
Option 2	Assume the adequate per pupil funding level to be at some agreed to percentile of expenditure or revenue per pupil.
Option 3	Use the methodology developed by the State Board of Education to determine the adequate funding level for regular education. Consensus concerning programs, class size, personnel needs and teacher salary would have to be reached to implement the methodology.

Regional Cost Adjustment

The possibility of adjusting for regional cost differences has received much attention. Three options have presented themselves.

Option 1	Do not recognize differences in regional educational costs.
Option 2	Adopt an index that could be applied to expenditure/revenue figures to adjust for regional cost differences.

If Option 2 is selected, several questions must be answered.

1. To what area should the index apply, i.e. school district, county, multi-county, other?
2. Which index should be used, or how should an index be determined?
3. How will the index be applied? If the index is used for distribution purposes, revenues must also be adjusted for evaluation purposes. The other alternative is to only adjust for evaluation.

The only index available to this point is the one developed by Professor Walter McMahon at the University of Illinois. This index is by county. Other states, in particular Texas and Ohio, have indices which could also be explored for use in Illinois.

Equity

Equity is by far the most complicated issue to be addressed by the Task Force. Assuming the overall goal is to reduce variation in per student expenditures/revenues and to make expenditure/revenue less a function of property wealth, it must be decided what level of variation is acceptable and how the variation is to be measured. Once these decisions are made, the following options are available.

Option 1 Reduce the overall variation by increasing the expenditure/revenue per student at the lower end of the distribution. This is usually referred to as "leveling up." The primary method used to obtain equity in this manner would be to substantially increase the state contribution to the overall funding of education. It may also be necessary to require a minimum tax rate or a minimum yield on the part of local school districts.

Option 2 Reduce the overall variation by decreasing expenditure/revenue per student at the higher end of the distribution. This is usually referred to as "leveling down." The primary method used to obtain equity in this manner would be to limit or reduce the amount of local property taxes a district may receive.

Option 3 Implement a combination of options one and two. One compromise position would be to "level up" the bottom while slowing the rate of increase at the top.

A related equity option involves organization neutrality. Should the system be neutral with respect to district organization or should there be a preferred district organizational structure?

Property Taxes

The local property tax is the largest revenue source and the one that contributes most heavily to the variation in expenditures/revenues. The options regarding change in the system of property taxation depend heavily upon how it is decided to approach equity.

Option 1 Require school districts to tax at a minimum rate, or at a rate that will yield a minimum property tax revenue per pupil.

Option 2 The growth in equalized assessed valuation can be limited.

Option 3 High tax rates can be rolled back.

Option 4 Levies/extensions can be limited.

Option 5 Property taxes can be levied over a wider geographic area and distributed to school districts within that area.

Option 6 The tax base can be split, e.g. commercial and industrial property only could be taxed on a regional or state level leaving the remainder of the base with the local school district.

Option 7 Restructure the system of permissive taxation to more clearly reflect district need. This may include some fund consolidation. It may also include an additional levy for capital outlay.

Corporate Personal Property Replacement Revenue

Corporate Personal Property Replacement Revenue is currently distributed based on a formula which is in excess of ten years old.

Option 1 Retain the distribution formula as adopted in the late 1970's and as it currently exists. Continue to make a property wealth adjustment in the general state aid formula to compensate for this additional source of "local revenue."

Option 2 Update the formula for distribution of the CPPRR funds to local school districts and other units of government and continue to convert to EAV for formula purposes.

Option 3 Collect CPPRR as is currently done and initially distribute to a county or regional level. A secondary distribution mechanism would be required to channel the funds to local school districts.

Option 4 Collect CPPRR as is currently done, deposit proceeds in the Common School Fund and distribute through the general state aid formula.

General State Aid Formula

The present general state aid formula has several inequities. Several options are presented for change and restructuring.

Option 1 Change the formula configuration, e.g.

$GSA = (F \times N) - (W \times T)$ where F = Foundation Level, N = Students, W = Property Wealth, T = Required tax rate

Option 2 Eliminate general state aid to the wealthy, i.e. if local property taxes of a district exceed a set dollar amount per student, then that district would receive no state aid. This eliminates the current flat grant and alternate method.

Option 3 If CPPRR remains in the formula, then either calculate the replacement EAV by dividing by the formula rate or use the actual dollar amount of CPPRR.

Option 4 Implement "reward for effort" for low wealth-high effort districts.

Option 5 Separate poverty from the formula. Create a separate categorical program based solely on the concentration of low-income students.

Option 6 If the poverty weighting is to remain in the formula, change the measure of poverty to one that is more timely and one which more accurately reflects district need.

Option 7 Require minimum tax effort or minimum yield for access to the formula.

Option 8 Tie required formula tax rates to a revamped permissive rate structure.

Option 9 Change or add to the existing grade- level weighting system.

Option 10 Do not change the current formula.

Categorical Program Funding

Approximately $1 billion dollars is distributed annually through various categorical programs.

Option 1 Do not change the present system.

Option 2 Eliminate categorical funding for the wealthy, i.e. if local property taxes of a district exceed a set dollar amount per student, then that district would receive no categorical funding.

Option 3 Develop equalization formulas based on property wealth for selected formula categoricals. The formulas would then be sensitive to both need and capacity and could be made sensitive to effort if desired.

Option 4 Shift the emphasis from categorical funding to general state aid by allocating more dollars to the formula and less to the categoricals.

Option 5 Combine selected categorical programs.

Option 6 Design and implement a method through which appropriate categorical weightings could be determined. These programs could then be rolled into the formula.

Efficiency

It is necessary to efficiently receive and use tax dollars in the delivery of educational services to students.

Option 1 Consolidate the purposes for which school districts currently levy. For example, Education, Working Cash and Special Education could be combined into one Education rate.

Option 2 Limit district ability to abolish and transfer working cash funds. Require referendum approval before the working cash fund can be recreated.

Option 3 Increase incentives for district consolidation.

Property Tax Relief

Property tax relief may be granted with or without an income for property tax trade. Approaches to property tax relief are closely tied to the approach to equity and reform of the property tax system in general.

Option 1 Limit revenue raising capability of local units of government. This may include levy limits, EAV limits or tax rate roll backs.

Option 2 Increase general homestead exemptions.

Option 3 Implement a circuit breaker for all low or fixed income families.

Option 4 Implement a circuit breaker for extraordinary growth, i.e. reimburse homeowners for property tax bill increases in excess of a set percentage.

Option 5 Implement a true income tax credit in which property owners would be given a dollar for dollar reduction in their state income tax with rebates from the state if necessary. The credit could apply only to any increase in excess of a set percentage.

Revenue Options

There is no question about the need for increased and sustained state support for education. Increased state contributions is one method of assuring equal educational opportunity.

Option 1 Make permanent the income tax surcharge. A larger portion of tax dollars could be earmarked for elementary and secondary education.

Option 2 Increase state revenues for education generally in order to support adequacy targets.

Option 3 Dedicate a set proportion of the income tax (or sales tax) proceeds to the common school fund.

Option 4 Require a set percentage of general funds appropriations be earmarked for elementary and secondary education.

Option 5 Require a percentage of all future revenue growth be appropriated for elementary and secondary education.

Option 6 Reinstate and fund the Capital Assistance program.

Other Considerations

Several other considerations have surfaced during discussion of school finance reform.

1. Design and implement a computer mapping system which could overlay census data, Department of Revenue data and school district boundary data. This would enable the gathering of alternative poverty counts, income data, etc. by district.
2. Design and implement a comprehensive system of pupil accounting and reporting in order to determine relative cost factors for various programs.

Appendix D

Progress Report for School Finance Reform in Illinois
Elementary and Secondary Education
Task Force on School Finance
1990-1991

Alternatives in each of the following broad topics have been discussed by the Task Force on School Finance.

Adequacy
Regional Cost Adjustment
Equity
Property Taxes
Corporate Personal Property Replacement
Categorical Funding
Efficiency
Property Tax Relief
Revenue Options
Other Considerations
General State Aid

What Has Been Done?

Following is a summary of decisions/general agreements made to this date.

Adequacy

It was agreed that the State Board of Education methodology be used with staff providing its final recommendations and justifications as to the class sizes, support and administrative ratios and salaries to be used.

Regional Cost Adjustment

The use of teacher salary as a component of a regional cost adjustment was rejected. The only alternative presented to date is the index developed by Professor Walter McMahon of the University of Illinois. Staff were directed to explore other alternatives.

Equity

The Task Force consensus was to approach equity through the first option presented.

> Reduce the overall variation by increasing the expenditure/revenue per student at the lower end of the distribution. This is usually referred to as leveling up. The primary method used to obtain equity in this manner would be to substantially increase the state contribution to the overall funding of education to provide funding necessary for an adequate educational program. It may also be necessary to require a threshold tax rate on the part of local school districts.

Property Taxes

Consensus was reached on an option which would require school districts to tax at a rate under which no school district would levy. EAV limitation, tax rate roll backs and levy/extensions limitations were rejected. Staff were asked to present data pertaining to alternatives on restructuring the system of permissive taxation, levying taxes on a wider geographic area, and splitting the tax base.

Corporate Personal Property Replacement Revenue

The constitutionality of changing the method of distributing CPPRR was discussed. A legal opinion was requested. Staff was asked to present data pertaining to distribution alternatives of these revenues on a regional and state basis.

General State Aid

Consensus was reached on retaining the distribution of dollars for the incidence of educationally disadvantaged in the formula, but changing the measure if possible. The structure of the formula, the elimination of state aid to the wealthy districts, the poverty measure, reward for effort and changing grade-level weightings were all deferred. The Task Force favors requiring minimum tax effort for access to the formula, but realizes a decision on the relationship between the required minimum property tax rate and minimum rate for formula access will be necessary. Staff were asked to present alternatives.

Categorical Program Funding

The Task Force chose not to support the concept of elimination of categorical funding for wealthy school districts. They also chose not to explore a shift of emphasis from categorical funding to general state aid, or combining selected categorical programs since ISBE staff were working independently on the second issue. The issue of designing a system of categorical weightings was dismissed due to a lack of data. Staff were directed to explore possible equalization options and determine which current categorical programs were tied to Federal funding.

Efficiency

The abolition of the working cash fund and fund consolidation in general did not receive strong support. Continued and increased incentives for school district consolidation with a view towards adequacy and efficiency were favored. It was suggested that the Capital Assistance Program may be an effective incentive to consolidation.

Property Tax Relief

Any limit in the revenue raising capability of school districts was rejected as were increased exemptions. Staff were asked to explore the circuit breaker and income tax credit options.

Revenue Options

It was generally agreed that state revenues for education should be increased and that the Capital Assistance Program should be funded. The concept of a local income tax was rejected. Staff were asked to explore possible constitutional amendments which would require a given level of state support for education.

Other Considerations

Both the design and implementation of a computer mapping system and a pupil accounting and reporting system were dismissed due to cost and time.

Summary

In seven of the eleven general categories, either decisions have been made or the decisions to be made will be peripheral to and not directly influence decisions and recommendations on the other four general categories.

These seven general categories are:

Adequacy
Equity
Categorical Program Funding
Efficiency
Property Tax Relief
Revenue Options
Other Considerations

The four key categories upon which the Task Force should now focus are:

Property Taxes
General State Aid
Corporate Personal Property Replacement Revenue
Regional Cost Adjustments

Appendix E

Core Issues for School Finance Reform in Illinois
Elementary and Secondary Education
Task Force on School Finance
1990-1991

The four key categories which are integral to the total system of funding are:

Property Taxes
General State Aid
Corporate Personal Property Replacement Revenue
Regional Cost Adjustments

These four areas, especially General State Aid, Property Taxes and Corporate Personal Property Replacement Revenue are **NOT INDEPENDENT OF EACH OTHER AND CANNOT BE CONSIDERED SEPARATELY.** In particular, the structure of the general state aid formula will depend heavily upon decisions concerning property taxes and CPPRR.

Staff will present their initial findings in some of these areas and will present other findings at a later date. Options to be explored in each of these four general categories are addressed below.

Property Taxes

Permissive Taxing Structure

A revised permissive taxing structure (maximum tax rates at which a school district may levy without referendum) will be submitted to the Task Force. The structure increases permissive taxing authority for elementary and unit districts to the level where the ratio of the elementary rates to high school rates is approximately 1.5 to 1 and the total unit rate was approximately equal to the total dual rate. The option included new taxing authority for Capital Purposes and resulted in rates of 2.24%, 1.46% and 3.66% for elementary, high school and unit districts, respectively.

Minimum Tax Rate

It would seem reasonable that the required minimum tax rates under which no district could levy should be tied to the permissive taxing structure. In fact, a new tax rate, the PTR (Permissive Tax Rate), defined as the sum of the permissive maximum rates, could be used as the required minimum tax rate.

As was previously noted, a required minimum tax rate is likely to raise extraordinary amounts of money in some high property wealth districts. Decisions regarding "recapture" provisions would have to be made.

Geographic Base for Levy Purposes

If taxes against the entire tax base were levied on a geographic area larger than the local school district, the district may not be left with a tax base of its own. This fact could impact on the mechanism used to distribute general state aid.

A larger area could be defined as multi-district, county, region or state. If the state taxed all property, the system would be one of full state funding and no equalization formula would be necessary.

If the base were widened, perhaps to a county level, then a certain amount of funds would be raised within each county. Decisions would have to be made about tax rates and secondary distribution mechanisms. Would there be a uniform rate among all counties or would each county choose its own tax rate? How would the dollars generated at the county level be redistributed back to school districts? How would referenda be held?

It is assumed that all debt service taxing authority would remain with the local school district. Would each school district retain any other local taxing authority on property within the district?

It should also be noted that the tax base regionalization concept implemented by Texas in their most recent reform efforts has already been challenged in the courts.

Split Tax Base

If the tax base were split, the options specified and questions posed about the geographic tax base are compounded.

Which portions of the tax base remain with the local district? Rep. Edley suggested that the residential and farm property remain with the local district and all other property be taxed at the state level.

It would also be possible to split the base with some property remaining with the local district and other property being taxed

at the county or regional level. Other options include part of the base at a county or regional level with a secondary distribution mechanism back to the local district while the remainder of the base is taxed by the state.

Since there are six categories of property and it would be possible to tax certain percentages of each category locally, regionally or statewide, the possibilities are almost endless.

For example, if the decision was made to leave a portion of the base with the local district (assume residential and farm) and tax the remainder of the base at the county level, then the question of a secondary distribution mechanism again arises. The tax proceeds raised at the county level could not be redistributed with a simple per pupil formula. An equalization mechanism would be needed within each county in order to distribute the funds to the districts within the county. If the district received part of its local revenue from a tax on property within the district and another portion from a secondary distribution mechanism from the county, the question of how these separate revenue sources would be accounted for in a general state aid equalization formula also arises.

The questions of debt service and referenda would also have to be answered.

General State Aid

Flat Grants

There is no question that state assistance to districts with the ability to raise substantial amounts of local revenue contributes to the expenditure/revenue disparity that currently exists among Illinois' school districts.

The philosophical question of whether or not everyone should get some return for their tax dollar needs to be answered. The idea that everyone pays taxes and therefore everyone should be entitled to some state assistance is in conflict with the concept that the purpose of state taxation is to promote the common welfare, and more specifically in this instance, to equalize resources.

If a required minimum tax rate is implemented, which would in all probability require some recapture provision, a flat grant would seem to be counterproductive.

Minimum Rate for Formula Access

It seems only natural that the required minimum tax rate should be the minimum rate for formula access, especially if the required minimum tax rate is tied directly to the permissive taxing structure. The alternative is to have formula access rates above the permissive maximum for all districts, which could require districts to pass referenda to access the formula. The Task Force may wish to consider using the PTR, which was defined above as the sum of the rates in the permissive taxing structure, as the minimum rate for formula access.

The question of which rates to use in the formula also arises. Alternatives are the actual OTR, the sum of the rates which have permissive maximums or fixed constants.

The question is whether or not to encourage uniform rates (horizontal taxpayer equity) by using the actual district tax rate (PTR or OTR) in formula computation or simply to use a fixed tax rate (as is current practice) by district type in the formula. Using the actual district tax rate would encourage districts to lower their tax rates.

Grade-Level Weightings

The grade-level weighting question remains open. Available expenditure data are not sufficient to determine average grade-level weightings based on actual costs statewide. The adequacy methodology provides a method of determining weightings for junior high and high school with the elementary weighting being accepted as 1.0.

Poverty Algorithm and Measure

The only currently available options for a poverty measure are Chapter 1 and free lunch eligibles. Each of these measures has been thoroughly discussed and each has advantages and disadvantages. The availability of AFDC and/or Food Stamp data is still being explored.

It has been agreed that districts with very low concentrations of low-income students do not incur extra costs that districts with high concentrations of low- income students incur. The current method of accounting for low-income students (an additional pupil weighting) does not address this concern.

As an alternative to the current algorithm, funding for the incidence of low-income students could be based on the concentration of students in the district. This would make the entitlement less sensitive to the actual number of low-income students and may make either the Chapter 1 count or free lunch eligibles more attractive. As an example, a formula similar to the following could be considered an add-on to the general state aid formula.

Percent District Poverty Concentration	Percent of Entitlement
Less than 10%	0.0%
10% or more but less than 20%	10.0%
20% or more but less than 40%	25.0%
40% or more but less than 60%	45.0%
60% or more	55.0%

As an example, a district with a 12% concentration of low income students would receive an additional 10% of its general state aid entitlement.

Formula Structure

The current general state aid formula was originally a guaranteed tax base configuration with actual district operating tax rate as the measure of district effort. Through the years the tax rates used in the formula, for all practical purposes, became constants. This changed the formula into a foundation type formula. A foundation formula is equivalent to our current special equalization formula and has the following basic form.

$GSA = F \times N - W \times T$

where
- F = Foundation Level
- N = Number of Pupils
- W = Property Wealth
- T = Tax Rate

This configuration is the simplest and most easily understood of the formula types.

Corporate Personal Property Replacement Revenue

State

The constitution states that revenues lost by units of local government and school districts because of the abolishment of the tax on corporate personal property must be replaced. If this is interpreted to mean school districts individually, it would seem to preclude the option of distributing the entire amount of CPPRR through the formula. If the statement is interpreted to mean school districts collectively, a distribution through the formula may be acceptable. An opinion from the Attorney General may provide guidance on this issue.

Regional

The constitutional issue of whether or not the distribution could be made on a regional basis is less questionable. If the base were widened, perhaps to a county level, then a certain amount of CPPRR funds would be available within each county. A decision would need to be made about a secondary distribution mechanism. The most probable option would be a simple per pupil secondary distribution.

Local Options

If the CPPRR is to remain with the local school district, it should continue to be counted as local revenue in the general state aid formula. Options exist as to how to treat the money for state aid purposes. Currently, the dollars are converted to an assessed valuation based on the 1977 total tax rate of the district. This replacement EAV is then added to the real EAV to determine total district wealth. This produces some inequities because of the relationship between the total tax rates and formula rates by type.

Two alternatives exist which would remedy the problem. The first would be to convert the CPPRR to a replacement EAV using a constant tax rate. The second would be to adopt a foundation type formula and simply account for the CPPRR as a dollar amount. Under the second alternative, the formula structure proposed above would be modified as follows.

$GSA = F \times N - (W \times T + R)$

where
- F = Foundation Level
- N = Number of Pupils
- W = Property Wealth
- T = Tax Rate
- R = Replacement Dollars

Regional Cost Adjustment

The Task Force agreed not to use teacher salary as the basis for a regional cost index.

One question which has not yet been decided is how to implement a regional cost index for both distribution and evaluation purposes. The obvious choices are to apply the index to the foundation level in the general state aid formula, and perhaps to the dollars being distributed through selected categorical programs.

Regions of the state which have the highest property wealth per student, also generally have the highest cost-of-living. Without any changes to the current system, the implementation of a regional index would tend to send more state dollars to the already wealthy districts. Whether or not this actually happened would depend on changes made to the property tax system and the general state aid formula.

To effectively measure equity, an adjustment during measurement would be necessary which would recognize that high cost-of-living districts may need and spend more than low cost-of-living districts but, because of regional cost differences, are providing similar services.

McMahon Index

The McMahon index continues to be the only external index which has been examined.

The index is derived from a prediction equation which uses as its independent variables, median value of a house, per capita income, and change in population. The housing and income variables account for most of the variation in the dependent variable and are therefore the most important factors in cost of living determination.

The 1989 index used the following data:

1989 Per Capita Personal Income from the U.S. Dept. of Commerce Survey of Current Business

Change in Population 1984 - 1989 from the U.S. Dept. of Commerce Current Population Reports

1989 Median Value of a House from the National Association of Realtors

The original index discussed by the Task Force used older data, especially data pertaining to housing.

Zip Code Index

Staff have been working to develop an index based on three-digit zip codes across the state. This index is based on the median adjusted gross income of personal income taxpayers in Illinois in 1988.

Summary

As options are narrowed and decisions are made concerning each of these four categories, Task Force recommendations will begin to emerge. Computer simulations will be available to facilitate the work of the Task Force. Alternatives can be agreed upon or rejected based on the outcomes of the simulations.

Appendix F

Working Paper
of the
Task Force on School Finance

October 22, 1991

THE CONTENTS OF THIS PAPER DO NOT REFLECT THE OPINIONS OR RECOMMENDATIONS OF THE TASK FORCE ON SCHOOL FINANCE OR ANY OF ITS INDIVIDUAL MEMBERS.

This paper is intended as a discussion document which will eventually lead to preliminary recommendations on the financing of elementary and secondary education in Illinois. The Task Force on School Finance, during its meetings in October, November and December of 1991, will discuss and alter this document in order that its preliminary recommendations reflect a system of funding that is in the best interest of the school children of the state.

A Place to Start

For purposes of discussion a comprehensive system of finance is outlined in this paper. This system would make progress toward the adequacy and equity goals delineated in the Purpose and Scope document. This paper is presented in a form which corresponds closely to the major categories delineated in the Purpose and Scope document.

Adequacy[1]

The State Board of Education methodology should be adopted and the cost figures associated with the regular elementary cost of an adequate education be used as a target foundation level for the general state aid formula.

Regional Cost Adjustment[2]

Regional cost differences should be recognized. The index recommended is a modified version of the county level index developed at the University of Illinois by Professor Walter McMahon.

The index should be modified by collapsing the range to a low of 90 and a high of 110.

The general state aid final entitlement should be multiplied by the index to adjust for regional cost differences.

Unrestricted total revenue (General State Aid + Local Property Taxes for Operating Purposes) should then be divided by the index for equity evaluation purposes.

Equity[3]

The variation in per pupil revenues should be reduced. This will be accomplished through various means as described in the remainder of this paper.

Vertical student equity should be evaluated using unrestricted revenue (defined above) as the object to be distributed.

The McLoone index (which measures disparity in revenues below the median) and ratio of 95th to 5th percentile should be the statistical measures used for evaluation purposes.

One equity goal for all types of districts is a McLoone Index of .95. A second equity goal for all types of districts is a ratio of 95th to the 5th percentile of 1.5.

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[1]**Alternatives for Adequacy**

The General Assembly can continue to determine adequacy through the annual appropriations process. That is, the general state aid foundation level will continue to be a function of the appropriation for that program.

Assume the adequate per pupil funding level to be at some agreed to percentile of expenditure or revenue per pupil.

[2]**Alternatives for Regional Cost Differences**

Alternative measures to the collapsed McMahon index include the original county level McMahon index and the adjusted gross income index based on three digit zip code.

If the index were not used for distribution, an index could be applied to expenditure or revenue data to account for the variation that is observed in those data.

[3]**Alternatives for Equity**

Equity is by far the most complicated issue to be addressed by the Task Force. Assuming the overall goal is to reduce variation in per student expenditures/revenues and to make expenditure/revenue less a function of property wealth, it must be decided what level of variation is acceptable and how the variation is to be measured.

One alternative is to "level up." In its purest sense, this means that no school district would be restricted from raising the revenues it now raises in any way. It is generally agreed that this method would cost the state in the billions of dollars in new revenues for schools.

Another alternative is to "level down" by placing significant restrictions on district revenues or expenditures.

The points put forth in this paper have the effect of both "leveling up" and "leveling down." The state will be expected to contribute to the school finance reform; however, a redistribution and redefinition of what constitutes local revenues are also included.

Property Tax Base[4]

Except as noted below, the property tax base of each school district should be reduced to include only residential and farm property.

The remainder of the tax base (Commercial, Industrial, Mineral and Railroads) should be subject to a statewide property tax of not less than 4.00%.

Each individual district may continue to tax its total property tax base for the purpose of current debt service and future long-term debt service.

A hold harmless on the amount of unrestricted revenue (general state aid, property taxes for operating purposes and corporate personal property replacement revenues) each district currently receives should be implemented. The hold harmless is to be reduced by 20% of the original hold harmless per year for five years and eventually phased out.

Property Tax Relief[5]

Property tax relief will be experienced by some corporate and industrial property tax payers as a result of a statewide rate on commercial and industrial property as described above. Conversely, some commercial and industrial property tax payers will experience increased property tax bills.

Property tax relief should be granted only to those residential property tax payers experiencing extraordinary increases in their property tax bills. Specific recommendations as to a method for implementation of tax relief for the residential tax payer will be provided at a future date.

Tax Structure[6]

A permissive taxing authority for general capital outlay should be introduced. This permissive authority is recommended at .05% for elementary and high school districts and .10% for unit districts.

The system of permissive taxation should be restructured to more clearly reflect district need. The following table gives current and recommended permissive structures by type of district.

School District Tax Rate Limitations
Current Limits Compared to
Recommended Limits
Chicago not Included

	Elementary		High School		Unit	
Purpose	Curr.	Rec.	Curr.	Rec.	Curr.	Rec.
Education	.92	1.55	.92	.92	1.84	2.47
Working Cash	.05	.05	.05	.05	.05	.10
Special Ed.	.02	.02	.02	.02	.04	.04
Oper./Main.	.25	.40	.25	.25	.405	.65
Fire/Life Safety	.05	.05	.05	.05	.05	.10
Transportation	.12	.12	.12	.12	.20	.20
Capital Outlay	–	.05	–	.05	–	.10
TOTAL	**1.41**	**2.24**	**1.41**	**1.46**	**2.585**	**3.66**

This shift results in a .83 increase for elementary districts, a .05 increase for high school districts and a 1.075 increase for unit districts (.095 of the increased unit authority for operations and maintenance purposes is now law and is being phased-in).

The increased permissive taxing authority in elementary and unit districts for education, operations and maintenance purposes and working cash purposes should be phased-in over a five-year period. The increased unit authority for fire/life safety purposes and the new authority for capital outlay for all district types should be implemented immediately.

Corporate Personal Property Replacement Revenue[7]

The CPPRR should continue to be collected as is current practice.

The portion of those proceeds normally distributed to local school districts should be deposited in the Common School Fund to be distributed through the general state aid formula. It is intended that these funds not supplant, but rather supplement funds currently being distributed through the formula.

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[4]**Alternatives for Property Taxes**
Require school districts to tax at a minimum rate and "recapture" for state purposes all revenues in excess of a set amount.
Limit the growth in assessed valuation.
Reduce local taxing authority.
Limit property tax extensions or levies.
Property taxes can be levied over a wider geographic area and distributed to school districts within that area.
The tax base can be split with a portion being taxed locally and another portion taxed at a regional level.

[5]**Alternatives for Property Tax Relief**
The Task Force could put forth a specific proposal as to how property tax relief should be granted.

[6]**Alternatives for Tax Structures**
Many alternatives exist as to how to consolidate funds, how to devise a proportional tax structure and over what period of time to phase a new structure into existence.

[7]**Alternatives for Corporate Personal Property Replacement Revenue**
Retain the distribution formula as adopted in the late 1970's and continue to make a property wealth adjustment in the general state aid formula to compensate for this additional source of "local revenue."
Collect CPPRR as is currently done and initially distribute to a county or regional level. A secondary distribution mechanism would be required to channel the funds to local school districts.

General State Aid Formula[8]

The adequate cost for regular elementary education (as determined by the ISBE methodology) should be specified as the target foundation level in the general state aid formula.

The modified McMahon index should be applied to the final entitlement.

The ratio of the junior high cost to the elementary cost from the adequacy methodology should be the grade weighting for grades 7-8. The ratio of the high school cost to the elementary cost should be the grade weighting for grades 9-12. This would yield a grade-level weighting of 1.05 for grades 7-8 and a 1.10 weighting for grades 9-12.

General state aid to the wealthy should be eliminated. If local property taxes (defined as real EAV multiplied by the OTR) per pupil of a district exceed the foundation level, then that district will receive no general state aid. This eliminates the flat grant and alternate method of distribution in the current formula.

If a school district chooses not to tax itself, for operating purposes, at a rate at least as great as the sum of the seven permissive levels, that district will receive no general state aid.

A foundation formula should be adopted. The basic formula should be:

If (W x OTR / N) > F or if OTR < T

then GSA = 0

Otherwise,

GSA = (F x N) - (W x T)

where F = Foundation Level
N = Weighted Average Daily Attendance
W = Real EAV of the District
OTR = Operating Tax Rate
T = Formula Tax Rate
2.24 for elementary
1.46 for high school
3.66 for unit

Chapter 1 should continue to be used as the measure of low-income students until that time when the State Board of Education completes its pilot program to determine the feasibility of using AFDC/Food Stamp data as a substitute for the Chapter 1 count. The State Board of Education will submit a report to the General Assembly with its recommendation concerning this issue no later than April 1, 1993.

The following table should be used to determine the amount of additional state aid a district receives to support programs for children from low-income families. In addition to the entitlement generated by the general state aid formula, each district would receive this percentage of its general state aid entitlement as an add-on.

Percent District Poverty Students	Percent of Entitlement
Less than 10%	0.0%
10% or more but less than 20%	10.0%
20% or more but less than 40%	25.0%
40% or more but less than 60%	40.0%
60% or more	55.0%

Categorical Program Funding[9]

Special Education and Transportation categorical programs should be equalized. State Board of Education staff are currently working on techniques which would equalize these programs.

Efficiency[10]

The number of short-term debt instruments should be reduced. This can be accomplished through the consolidation and/or elimination of existing instruments. The State Board of Education shall report its recommendations on this matter to the General Assembly no later than December 1, 1992.

Incentives for district consolidation and/or reorganization should be increased. In particular, it is recommended that when a consolidation results in the formation of a high school with enrollment of greater than 500 students and elimination of at least one high school with an enrollment of less than 500 students, the state will pay 70% of construction costs of a new high school facility if needed and desired.

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[8]**Alternatives for General State Aid**

If CPPRR remains in the formula, then either calculate the replacement EAV by dividing by the formula rate or use the actual dollar amount of CPPRR.

The percentages proposed with the separate poverty formula could be modified.

The current method of accounting for low-income students could be retained with changes in the weightings and cap.

[9]**Alternatives for Categorical Program Funding**

Eliminate categorical funding for the wealthy, i.e. if local property taxes of a district exceed a set dollar amount per student, then that district would receive no categorical funding.

Shift the emphasis from categorical funding to general state aid by allocating more dollars to the formula and less to the categoricals.

Combine selected categorical programs.

Design and implement a method through which appropriate categorical weightings could be determined. These programs could then be rolled into the formula. This would take several years to design and implement.

[10]**Alternatives for Efficiency**

Limit district ability to abolish and transfer working cash funds. Require referendum approval before the working cash fund can be recreated.

Increase incentives for district consolidation.

The Capital Assistance Program should be funded at a level which would make funds for facilities available to all school districts needing assistance in new construction.

Additional Sources of Revenue[11]

Education is the responsibility of the State. The State must financially support an adequate educational program for all students. This support includes not only the adequate teaching but also the safe and appropriate housing of students at all grade levels. The State must take whatever steps are necessary, whether it be an increase in the state income tax, an increase in the sales tax, the implementation of a state property tax, or the redistribution of state resources, to ensure that sufficient revenues are available to adequately support the education of its student population.

Summary

The system of finance set forth in this discussion document addresses the problems of:

1. Insufficient state support of elementary and secondary education
2. Over reliance on the local property tax
3. Inequitable distribution of corporate personal property replacement revenues
4. The existence of low effort districts
5. The rational determination of a reasonable funding level
6. Differences in the cost of delivering comparable educational systems across the state
7. The inequity of the existing structure of permissive taxation
8. The antiquity and complexity of the general state aid formula
9. The equalization of selected categorical programs

This system also addresses the problems of adequacy and equity.

1. Every student in the state is guaranteed from a combination of state and local sources a minimum of $3,898 (adjusted for regional cost and grade-level weightings) to support the public school educational program.
2. It was proposed that the ratio of the 95th to 5th percentile should be not higher than 1.5 for each type of district. This system produces ratios of 1.33, 1.45 and 1.25 for elementary, high school and unit districts, respectively.
3. It was proposed that the McLoone index should be no lower than .95 for each type of district. This system yields McLoone indices of .949, .949 and .946 for elementary, high school and unit districts, respectively.

The costs associated with this system of finance are outlined below. Costs are based on 1989 EAV and tax rate data. It is assumed that this system of finance was in place during the 1991-92 school year.

1. General state aid would increase from $2.1 billion to $5.7 billion, an increase of $3.6 billion.
2. Local revenues would decrease from $4.6 billion to $2.5 billion, a decrease of $2.1 billion. Of that $2.1 billion, $1.8 billion is due to the deletion of commercial and industrial property from the local property tax base and $300 million is due to the conversion of CPPRR from a local to a state revenue source.
3. The total increased cost to the state would be approximately $1.5 billion plus an approximate $300 million hold harmless.

[11] **Alternatives for Additional Revenues**
Increase state revenues for education generally in order to support adequacy targets.
Dedicate a set proportion of the income tax (or sales tax) proceeds to the common school fund.
Require a set percentage of general funds appropriations be earmarked for elementary and secondary education.
Require a percentage of all future revenue growth be appropriated for elementary and secondary education.

Appendix G

Summary of Public Hearings

The Task Force on School Finance held a total of five public hearings (Rockford, Wheaton, Chicago, Springfield, and Mt. Vernon/ Ina). Public input on the content of the Preliminary Report of the Illinois Task Force on School Finance was specifically solicited. At these hearings, a total of 62 people testified. The following Task Force recommendations were specifically addressed by those testifying at these hearings.

	Support	Oppose
Adequacy	22	
Regional Cost Adjustment	24	2
Equity (Leveling Up)	17	
Property Tax Base	10	
Permissive Tax Structure	22	3
Corporate Personal Property Replacement	5	1
General State Aid Formula		
Minimum Rate for Formula Access	10	
Fixed Tax Rate	12	
Operating Tax Rate	1	14
Combination Option	4	2
Categorical Funding	7	1
Phase In - Hold Harmless	8	
Property Tax Relief	3	5
Efficiency	8	1

The following comments/concerns were recurrent throughout the testimony at these hearings.

There should be a mechanism for updating the adequacy methodology periodically.

There was considerable testimony regarding the use of Chapter 1 as the low-income measure and the capping of the Chapter 1 weight.

The recommendations for property tax relief were not sufficient.

There should be relief from the property tax caps.

The operating tax rate should not be used in the General State Aid formula.

Appendix H

1989 McMahon Index and Collapsed Index
Illinois Counties
in Descending Order

County	McMahon Index	Collapsed Index	County	McMahon Index	Collapsed Index
LAKE	114.39	110	IROQUOIS	87.56	98
DUPAGE	113.54	110	DEWITT	87.54	98
COOK	105.32	106	CHRISTIAN	87.44	98
KENDALL	102.30	105	WASHINGTON	87.44	98
KANE	100.05	103	LOGAN	87.35	98
MONROE	98.60	103	WAYNE	87.33	98
WILL	95.90	102	WHITE	87.20	98
PEORIA	95.88	102	SALINE	87.01	98
MCHENRY	95.84	102	EFFINGHAM	86.99	98
GRUNDY	95.52	101	ST CLAIR	86.97	98
WINNEBAGO	95.28	101	MOULTRIE	86.93	98
PUTNAM	94.87	101	VERMILION	86.69	97
BOONE	93.94	101	CASS	86.16	97
TAZEWELL	93.92	101	HANCOCK	86.10	97
SANGAMON	93.86	101	EDGAR	86.07	97
STEPHENSON	93.61	101	PERRY	85.91	97
ROCK ISLAND	93.60	101	MCDONOUGH	85.68	97
DEKALB	92.92	100	JACKSON	85.49	97
MARSHALL	92.88	100	EDWARDS	85.38	97
OGLE	92.52	100	COLES	85.37	97
MACON	92.48	100	JASPER	85.34	97
STARK	92.37	100	SCHUYLER	85.19	97
MCLEAN	92.19	100	MONTGOMERY	85.08	97
WOODFORD	92.00	100	MACOUPIN	85.05	97
FORD	91.26	99	MARION	84.91	97
PIATT	91.01	99	BOND	84.82	97
BUREAU	90.86	99	SHELBY	84.52	96
HENRY	90.76	99	KNOX	84.42	96
ADAMS	90.73	99	SCOTT	84.41	96
CHAMPAIGN	90.39	99	DOUGLAS	84.38	96
WHITESIDE	90.22	99	CLAY	84.32	96
LIVINGSTON	90.19	99	GALLATIN	84.23	96
LASALLE	89.88	99	JERSEY	84.22	96
MADISON	89.43	99	WILLIAMSON	84.12	96
CLINTON	89.28	99	CALHOUN	84.09	96
LEE	89.27	99	FRANKLIN	83.73	96
KANKAKEE	89.16	99	RANDOLPH	83.70	96
MERCER	89.13	99	HENDERSON	83.63	96
BROWN	89.07	98	PIKE	83.47	96
WARREN	89.05	98	CLARK	83.46	96
CRAWFORD	89.04	98	UNION	83.24	96
MENARD	88.92	98	FAYETTE	82.24	95
JO DAVIESS	88.80	98	CUMBERLAND	81.98	95
RICHLAND	88.80	98	HAMILTON	81.41	95
MORGAN	88.55	98	GREENE	80.99	95
CARROLL	88.49	98	MASSAC	80.05	94
WABASH	88.26	98	ALEXANDER	78.23	94
FULTON	88.19	98	HARDIN	78.06	93
MASON	88.19	98	POPE	76.90	93
LAWRENCE	87.87	98	PULASKI	76.18	93
JEFFERSON	87.62	98	JOHNSON	70.42	90

Appendix I

Current School District Tax Rate Limitations

Purpose		Without Referendum	With Referendum
Education	Elementary	0.920	3.500
	High School	0.920	3.500
	Unit	1.840	4.000
	Chicago	2.110	4.000
Oper. & Main.	Elementary	0.250	0.550
	High School	0.250	0.550
	Unit	0.500	0.750
	Chicago	0.450	N/A
Transportation	Elementary	0.120	As Needed
	High School	0.120	As Needed
	Unit	0.200	As Needed
	Chicago	NO AUTHORITY	
Special Education	Elementary	0.020	0.125
	High School	0.020	0.125
	Unit	0.040	0.250
	Chicago	0.040	N/A
Area Vocational	High School	0.000	0.050
	Unit	0.000	0.050
	Chicago	NO AUTHORITY	
Bond & Interest	All	N/A	As Needed
Rent	All	N/A	As Needed
Tort Immunity	All	As Needed	N/A
Working Cash	All	0.050	N/A
Tort Judgement	All	As Needed	N/A
PURPOSES FOR WHICH CHICAGO IS EXCLUDED			
Summer School	All	0.000	0.150
IMRF/Soc. Security	All	As Needed	N/A
Health Insurance	All	N/A	As Needed
Fire, Safety, Energy	All	0.050	0.100
Capital Imp.	All	0.000	0.060
Facility Leasing	All	0.050	0.100
Temp. Relocation	All	0.050	N/A
PURPOSES FOR WHICH ONLY CHICAGO* CAN LEVY			
Textbooks		0.110	N/A
Playground		0.080	N/A
Teacher Retirement		0.260	N/A
Agricultural Science School		0.020	N/A
O/M for Public Bldg. Comm.		As Needed	N/A
Rent (from Public Bldg. Commission)		As Needed	N/A
Medicare		As Needed	N/A

*Chicago School Finance Authority not included.

Appendix J

General State Aid Simulation

To simulate the effect of a revised permissive tax structure, the OTR of qualifying districts was increased to

Elementary	2.02%
High School	1.46%
Unit	3.33%

SIM 1 reflects the current GSA formula at no increase.

SIM 2 reflects Task Force recommendations.

The simulation assumes the system is totally in place for the 1992-93 school year. This does not represent a phase-in.

School Finance Simulation System Comparison
Current GSA vs. Task Force Recommendations

	SIM 1	Pct	SIM 2	Pct	DIFF	Change
GSA Revenue	2,126 M	29.9%	3,596 M	41.6%	1,470 M	69.1%
Local Revenue	4,997 M	70.1%	5,045 M	58.4%	48 M	1.0%
Total Revenue	7,123 M	100.0%	8,642 M	100.0%	1,518 M	21.3%
Elementary	357 M	16.8%	668 M	18.6%	311 M	87.2%
High School	144 M	6.8%	199 M	5.5%	55 M	38.1%
Unit	1,625 M	76.4%	2,729 M	75.9%	1,104 M	67.9%
Chicago	555 M	26.1%	1,061 M	29.5%	507 M	91.4%
Other Cook	188 M	8.8%	330 M	9.2%	142 M	75.8%
DuPage	40 M	1.9%	71 M	2.0%	31 M	76.4%
Kane	71 M	3.4%	114 M	3.2%	43 M	60.6%
Lake	61 M	2.9%	116 M	3.2%	54 M	89.0%
McHenry	21 M	1.0%	40 M	1.1%	19 M	88.3%
Will	69 M	3.2%	113 M	3.1%	44 M	64.7%
Downstate	1,122 M	52.7%	1,751 M	48.7%	630 M	56.1%

School Finance Simulation System Comparison
Equity Measures by Type Based on Unrestricted Revenue per Pupil
Current GSA vs. Task Force Recommendation

	Elementary		High School		Unit	
	SIM 1	SIM 2	SIM 1	SIM 2	SIM 1	SIM 2
Maximum Revenue	11,437	11,884	9,889	9,559	9,717	10,233
95th Pct Revenue	6,777	6,694	8,320	8,270	3,789	4,219
Median Revenue	3,195	4,003	3,962	4,477	2,858	3,898
5th Pct Revenue	2,573	3,898	2,910	3,898	2,650	3,898
Minimum Revenue	2,394	3,898	2,457	*1,202	2,515	3,898
Mean	3,965	4,928	5,322	6,130	3,181	4,238
Standard Deviation	1,318	997	1,731	1,569	548	437
Range	9,042	7,986	7,432	8,357	7,201	6,335
95th/5th	2.63	1.72	2.86	2.12	1.43	1.08
Coef. of Variation	33.25	20.24	32.52	25.60	17.22	10.31
Slope	.3629	.1956	.5473	.4024	.1993	.0787
McLoone Index	0.8825	0.9774	0.8328	**0.9018	0.9541	1.0000

*Due to the extremely low tax rate of one district, the district tax rate was not simulated to increase to the access rate. In reality, the district would choose to do so. The 3,898 minimum would be achieved if this district did choose to increase its rate.

**Due to the extremely low tax rate of one district, the district tax rate was not simulated to increase to the access rate. In reality, the district would choose to do so. This measure for high school districts, is in all probability too low.

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